大眾金融控股有限公司

PUBLIC FINANCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability) Stock Code: 626

ANNUAL REPORT 2019

CONTENTS

Corporate Information

Board of Directors

Non-Executive Chairman

Tan Sri Dato' Sri Dr. Teh Hong Piow (Chairman), also Founder, Chairman Emeritus, Director and Adviser of Public Bank Berhad

Executive Director

Tan Yoke Kong

Non-Executive Directors

Quah Poh Keat
Dato' Chang Kat Kiam
Chong Yam Kiang

Independent Non-Executive Directors

Lai Wan (Co-Chairman)
Lee Chin Guan
Tang Wing Chew

Joint Secretaries

Tan Yoke Kong
Chan Sau Kuen

Registered Office

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

2/F, Public Bank Centre
120 Des Voeux Road Central
Central, Hong Kong
Telephone : (852) 2541 9222
Facsimile : (852) 2815 9232
Website : www.publicfinancial.com.hk

Share Listing

Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 626

Principal Registrar

MUFG Fund Services (Bermuda) Limited
4th Floor North, Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

Hong Kong Branch Registrar

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone : (852) 2980 1333
Facsimile : (852) 2810 8185

Auditors

Ernst & Young
Certified Public Accountants

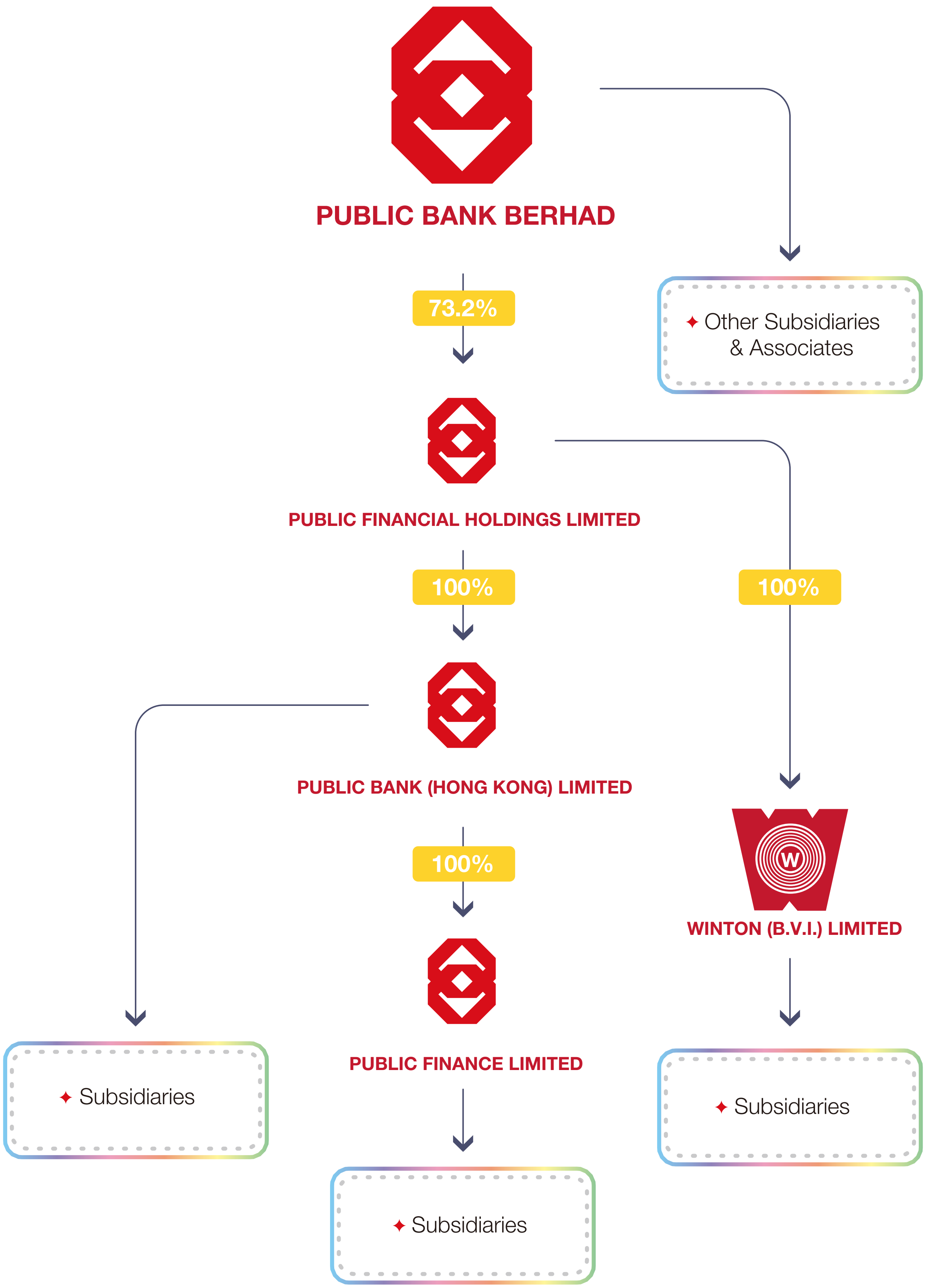
Legal Advisers

Charles Yeung Clement Lam Liu & Yip
Deacons
Siao, Wen and Leung
Stephenson Harwood

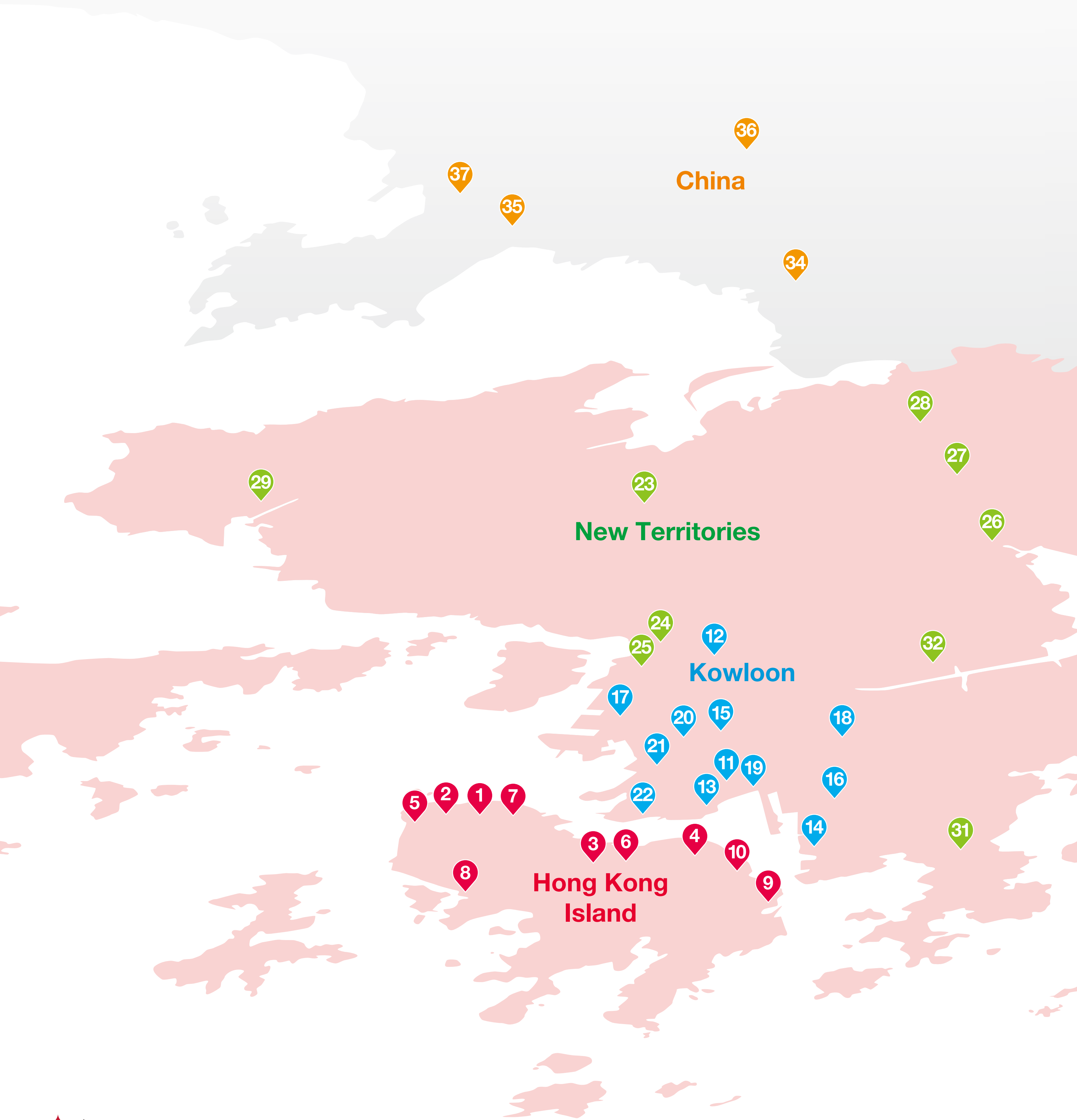
Principal Bankers

CIMB Bank Berhad
JPMorgan Chase Bank, N.A. Hong Kong Branch
Mizuho Bank, Ltd., Hong Kong Branch
Oversea-Chinese Banking Corporation Limited
Public Bank Berhad
Public Bank (L) Ltd
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

Group Structure



Public Bank (Hong Kong) Limited Branch Network



HEAD OFFICE AND BRANCHES

Head Office
2/F, Public Bank Centre, 120 Des Voeux Road Central

Tel	: 2541 9222	Telex	: 73085 CBHK HKHH
P.O. Box	: G.P.O. Box 824	Fax	: 2541 0009
Website	: www.publicbank.com.hk		

HONG KONG ISLAND

1 **Main Branch**
G/F, Public Bank Centre
120 Des Voeux Road Central
Tel: 2541 9222 Fax: 2545 2866
Manager: Yam Oi Yin, Pauline

2 **Western Branch**
Shop 2-3, G/F, Kam Kwan Building
163-173 Des Voeux Road West
Tel: 2858 2220 Fax: 2858 2638
Manager: Lau Ching Sang, Paul

3 **Wanchai Commercial Centre**
Unit A, 9/F, China Overseas Building
139 Hennessy Road
Tel: 2891 4171 Fax: 2834 1012
Manager: Kwong Hon Wun, Peter

4 **North Point Branch**
Shop 2, G/F, Two Chinachem Exchange Square
338 King's Road
Tel: 2568 5141 Fax: 2567 0655
Manager: Louie Sze Ho, Eugene

5 **Shek Tong Tsui Branch**
Shop B1, G/F, Hong Kong Plaza
188 Connaught Road West
Tel: 2546 2055 Fax: 2559 7962
Manager: Lau Wai Mei, Susanna

6 **Causeway Bay Branch**
G/F and M/F
447 Hennessy Road
Tel: 2572 2363 Fax: 2572 3033
Manager: Chong Mei Kuen, Joe

7 **Central Branch**
Unit A, G/F, Wing On House
71 Des Voeux Road Central
Tel: 2147 2140 Fax: 2147 2244
Manager: Ting Lai May, May

8 **Aberdeen Branch**
Shop B, G/F, Kong Kai Building
184 Aberdeen Main Road
Tel: 2871 0928 Fax: 2871 0383
Manager: Wong Chun Hoi, Wilson

9 **Shau Kei Wan Branch**
Shop 2, G/F, Hong Tai Building
326-332 Shaukeiwan Road
Tel: 2884 3993 Fax: 2885 9283

10 **Quarry Bay Branch**
Shop 8, G/F, Oceanic Mansion
1010-1026 King's Road
Tel: 2856 3880 Fax: 2856 0833
Manager: Wong Kei Man, Allison

KOWLOON

11 **Yaumatei Branch**
G/F, Ek Nam Building
486 Nathan Road
Tel: 2381 1678 Fax: 2395 6398
Manager: Chan Wai Cheong, Daniel

12 **Kowloon City Branch**
G/F, 15 Nga Tsin Wai Road
Tel: 2382 0147 Fax: 2718 4281
Manager: Chan Chi Man, Mandy

13 **Hung Hom Branch**
G/F, Hunghom Commercial Centre
37 Ma Tau Wai Road
Tel: 2363 9213 Fax: 2363 3195
Manager: Choi Kam Yee, Catalina

14 **Kwun Tong Branch**
Unit 2310, Tower 1, Millennium City 1
388 Kwun Tong Road
Tel: 2389 9119 Fax: 2389 9969
Manager: Lee Wai Kwan, Luceta

15 **Mongkok Branch**
G/F, JCG Building
16 Mongkok Road
Tel: 2391 8393 Fax: 2391 6909
Manager: Chan Shiu Man, Ricky

16 **San Po Kong Branch**
Shop B, G/F, Perfect Industrial Building
31 Tai Yau Street
Tel: 2326 8318 Fax: 2326 9180
Manager: Yeung Chun Ming, Simpson

17 **Cheung Sha Wan Branch**
Unit C2, G/F, 746 Cheung Sha Wan Road
Tel: 2786 9858 Fax: 2786 9506
Manager: Wong Kai Ip, Jimmy

18 **Wong Tai Sin Branch**
Shop 641-642, 6/F,
Tsz Wan Shan Shopping Centre
Tel: 2328 7332 Fax: 2328 7991
Manager: Wong Lik Kin, Loppy

19 **To Kwa Wan Branch**
Shop Nos.109 & 120, G/F,
Block B, I-Feng Mansions
No.237A To Kwa Wan Road
Tel: 2362 0238 Fax: 2362 3999
Manager: Leung Ho Chuen, Noel

20 **Prince Edward Branch**
G/F, 751 Nathan Road
Tel: 2397 3830 Fax: 2397 1006
Manager: Ngan Pui Shan, Sandy

21 **Tai Kok Tsui Branch**
Unit B, Shop No.1, G/F, Tai Moon Building
Cosmopolitan Estate, Nos. 43-59 Tai Tsun Street
Tel: 2392 1538 Fax: 2392 1101
Manager: Tsu Shuk Yi, Carmen

22 **Tsim Sha Tsui Branch**
G/F, (Front Portion), 43 Mody Road
Tel: 2721 1218 Fax: 2721 1028
Manager: Lai Siu Yee, Flora

NEW TERRITORIES

23 **Yuen Long Branch**
Shop 5, G/F, Fu Ho Building
3-7 Kau Yuk Road
Tel: 2479 4265 Fax: 2473 3934
Manager: Lam Wong Kan, Kent

24 **Tsuen Wan Branch**
G/F, Victory Court,
185-187 Castle Peak Road
Tel: 2490 4191 Fax: 2490 4811
Manager: Chui Pui Ching, Anny

25 **Kwai Chung Branch**
Shop 88B of Trendy Place
3/F, Kwai Chung Plaza, 7-11 Kwai Foo Road
Tel: 2480 0002 Fax: 2401 2367
Manager: Tang Wing Yi, Athena

26 **Tai Po Branch**
Eastmost Shop on G/F,
Nos. 37/39 Po Yick Street
Tel: 2657 2861 Fax: 2657 7389
Manager: Yan Yi Kam, Patrick

27 **Fanling Branch**
G/F, 11 Wo Lung Street
Luen Wo Market
Tel: 2669 1559 Fax: 2669 8780
Manager: Chan Sau Ping, Rebecca

28 **Sheung Shui Branch**
G/F, 137 San Shing Avenue
Tel: 2639 0307 Fax: 3124 0091
Manager: Kan Wai Man, Daniel

29 **Tuen Mun Branch**
Shop J on G/F, Mai Kei Building
Nos. 124-148 Ho Pong Street
Tel: 2440 1298 Fax: 2440 1398
Manager: Fong Fung Mei, Marisa

30 **Sai Kung Branch**
G/F, 16 Yi Chun Street
Tel: 2792 8588 Fax: 2791 0077
Manager: Kee Ka Wai

31 **Tseung Kwan O Branch**
G105-106, G/F, Metro City Plaza I
Tel: 2701 7688 Fax: 2701 7628

32 **Shatin Branch**
Shop 4-6B,
Lucky Plaza Commercial Centre
Tel: 2601 6308 Fax: 2601 3686
Manager: Chow Wing Hung, Desmond

CHINA

33 **Shenzhen Branch**
Shop No. 1, G/F, Carrianna Friendship Square
Renminnan Road, Shenzhen
People's Republic of China
Tel : (86-755) 2518 2822
Fax : (86-755) 2518 2327
Manager : Ying Wei Jun, Yoyo

34 **Futian Sub-branch**
1-3 Jinrun Mansion, No. 6019 Shennan Road
Futian District, Shenzhen
People's Republic of China
Tel : (86-755) 8280 0026
Fax : (86-755) 8280 0016
Manager : Ye Jun Liang, Leo

35 **Shekou Sub-branch**
Shop No.155-156, Coastal Building (East Block)
Hai De San Dao, Nanshan District, Shenzhen
People's Republic of China
Tel : (86-755) 8627 1388
Fax : (86-755) 8627 0699
Manager : Qi Han Qiao, Ken

36 **Longhua Sub-branch**
No.110, Block 1, Laimeng Spring Garden
(Land No.: A818-0449), Minzhi Office, Longhua
New District, Shenzhen, People's Republic of China
Tel : (86-755) 2377 7601
Fax : (86-755) 2377 6919
Manager : Xiao Shi Yong, Ken

37 **Qianhai Sub-branch**
Shop No. 0933, Block 9 &12, Phase 2
Zhongzhou Huafu, Xinan Street, Baoan District
Shenzhen, People's Republic of China
Tel : (86-755) 2557 8838
Fax : (86-755) 8228 3559
Manager : Chen Hai Zhou, Joe

Shenyang Representative Office
Unit 2907B, No. 262 Shifu Road, Shenhe District
Shenyang, Liaoning Province
People's Republic of China
Tel : (86-24) 2279 1368
Fax : (86-24) 2279 1369
Representative : Li Yu Jie

Shanghai Representative Office
Room I J, 24/F, Jin Sui Mansion
No. 379 South Pu Dong Road, Shanghai
People's Republic of China
Tel : (86-21) 5887 8851
Fax : (86-21) 5887 9951
Representative : Yang Min

Public Finance Limited Branch Network

HEAD OFFICE AND BRANCHES

Head Office
1105-7 Wing On House, 71 Des Voeux Road Central
Tel : 2525 9351 Fax : 2845 0681
P.O. Box : G.P.O. Box 11102
Website : www.publicfinance.com.hk

HONG KONG ISLAND

1 **World-Wide House Branch**
Rm 2, 3 and 5, 20/F, World-Wide House
19 Des Voeux Road Central
Tel: 2522 4067 Fax: 2537 3623
Manager: Sze Jane M.

2 **Queen Victoria Street Central Branch**
G/F, 14 Queen Victoria Street
Tel: 2526 6415 Fax: 2877 9088
Manager: Wong Chun Kuen, Boris

3 **Central Branch**
Room 1006, 10/F, Manning House
48 Queen's Road Central
Tel: 2524 8676 Fax: 2877 9084
Manager: Leung Kwok Chung, Kelvin

4 **Wing On House Branch**
Room 1109-10, Wing On House
71 Des Voeux Road Central
Tel: 2524 5603 Fax: 2537 2909
Manager: Tiu Rosalee Tobias Chua

5 **Wanchai Branch**
4/F., CNT House, 120 Johnston Road
Tel: 2574 6245 Fax: 2893 6653
Manager: Lau Hing Tai, Chris

6 **Russell Street Causeway Bay Branch**
Unit 02A & 03, 30/F, Soundwill Plaza
38 Russell Street
Tel: 2891 7028 Fax: 2893 3769

7 **Causeway Bay Branch**
No. 2201-2202, 22/F., Island Beverley
1 Great George Street
Tel: 2893 6575 Fax: 2893 2770
Manager: Fung Kit Ying, Irene

8 **North Point Branch**
Shop No. 1, G/F, Wah Hing Building
449-455 King's Road
Tel: 2561 0160 Fax: 2856 3647
Manager: Sin Ho Fai, Edmund

9 **Shaukeiwan Branch**
G/F, 134 Shaukeiwan Road
Tel: 2567 0461 Fax: 2885 8501
Manager: Fong Tsz Kin, Kenny

10 **Shek Tong Tsui Branch**
Office No. 1, 11/F, Pacific Plaza
410-418 Des Voeux Road West
Tel: 2817 6125 Fax: 2817 7618
Manager: Lai Wing Yee, Maggie

11 **Western District Branch**
G/F, 161 Des Voeux Road West
Tel: 2547 9148 Fax: 2546 1142
Manager: Law Tak Lam

12 **Aberdeen Branch**
Shop A, G/F, Kong Kai Building
184-188 Aberdeen Main Road
Tel: 2553 8231 Fax: 2554 3897
Manager: Chu Siu Lan, Vicky

13 **Chai Wan Branch**
G/F, Block B, 77 Walton Estate
341-343 Chai Wan Road
Tel: 2557 8003 Fax: 2557 4088
Manager: Li Wing Kin, Nakai

14 **Quarry Bay Branch**
G/F, 14 Hoi Kwong Street
Tel: 2516 6368 Fax: 2579 0084
Manager: Lau Siu Kai, Dickie

15 **Admiralty Branch**
Shop 2010, 2/F, United Centre
95 Queensway
Tel: 2520 1323 Fax: 2520 6889
Manager: Lai Chun Yip

KOWLOON

16 **Star House Branch**
Unit 921, 9/F,
Star House, 3 Salisbury Road
Tel: 2730 8395 Fax: 2730 2346
Manager: Lee Wing Fai, Joe

17 **Tsimshatsui Branch**
Shop No. 51-53, 1/F, Harbour Crystal Centre
100 Granville Road
Tel: 2369 3236 Fax: 2311 0433
Manager: Hui Sze Yin, Wilfred

18 **Jordan Road Branch**
Shop 2A, G/F, Kent Building
39 & 39A Jordan Road
Tel: 2736 4711 Fax: 2314 8432

19 **Nathan Road Branch**
G/F, Ruby Commercial Building
480 Nathan Road
Tel: 2771 5285 Fax: 2770 4127
Manager: Law Sai Chiu, Kelvin

20 **Mongkok Branch**
Flat B, 1/F, JCG Building, 16 Mongkok Road
Tel: 2394 0253 Fax: 2787 5630
Manager: Tang Ka Mun, Eric

21 **Shamshuipo Branch**
G/F, 52 Un Chau Street
Tel: 2728 2347 Fax: 2729 9685
Manager: Fan Mei Ying, May

22 **Cheung Sha Wan Branch**
Unit C1, G/F, 746 Cheung Sha Wan Road
Tel: 2744 5416 Fax: 2785 3634
Manager: Cheung Chun Ming, Jimmy

23 **Hunghom Branch**
G/F, 130 Ma Tau Wai Road
Tel: 2334 4307 Fax: 2764 4876

24 **Sanpokong Branch**
G/F, 92 Shung Ling Street
Tel: 2328 3175 Fax: 2325 4504
Manager: Chan Shun Yiu, Jason

25 **Kowloon City Branch**
Shop LG11C, LG/F, Kowloon City Plaza
128 Carpenter Road
Tel: 2382 4893 Fax: 2716 4819
Manager: Wong Chi Fu, Terry

26 **Tokwawan Branch**
Block Front, G/F,
70B Tokwawan Road
Tel: 2365 7061 Fax: 2764 2832
Manager: Lau Lai Kan, Caren

27 **Kwun Tong Branch**
Unit 804, 8/F, Kwun Tong View
410 Kwun Tong Road
Tel: 2344 0264 Fax: 2763 5427
Manager: Lee Man Fai, Eric

28 **Wong Tai Sin Branch**
G/F, Wing Kin Mansion
89 Fung Tak Road
Tel: 2320 5112 Fax: 2726 0106

29 **Prince Edward Branch**
Shop D, G/F,
785-787A Nathan Road
Tel: 2380 3260 Fax: 2380 4100
Manager: Lo Chi Wai

30 **Ngau Tau Kok Branch**
Shop 29, G/F, Wang Kwong House
33 Ngau Tau Kok Road
Tel: 2757 8299 Fax: 2757 8737

31 **Kowloon Bay Branch**
Shop No. 7, G/F, Exchange Tower
33 Wang Chiu Road
Tel: 2756 7320 Fax: 2758 5706
Manager: Tsoi Tung Fai, Ronnie

32 **Tseung Kwan O Branch**
Shop No. S12A, G/F, Bauhinia Garden
11 Tong Chun Street
Tel: 2790 5600 Fax: 2790 5618

33 **Tai Kok Tsui Branch**
Shop 3B, G/F, Tai Wing Building
44-60 Tai Tsun Street
Tel: 2791 2033 Fax: 2791 2710
Manager: Chan Ho Ming

NEW TERRITORIES

34 **Kwai Chung Branch**
Shop 86A & 88A, 3/F, Kwai Chung Plaza
7-11 Kwai Foo Road
Tel: 2420 0121 Fax: 2485 0590
Manager: Yeung Chui Ming

35 **Tsuen Wan Branch**
Unit 1101, 11/F, Kolour Tsuen Wan
68 Chung On Street, Tsuen Wan
Tel: 2493 4187 Fax: 2417 4497
Manager: Lee Siu Leung, Keith

36 **Tuen Mun Branch**
Shop 7, G/F, Mei Hang Building, Kai Man Path
Tel: 2457 2901 Fax: 2440 2503

37 **Yuen Long Branch**
G/F, 182 Main Road
Tel: 2476 2146 Fax: 2475 9903
Manager: Lai Hon Wang, Felix

38 **Tai Po Branch**
Shop C, G/F, Kwong Fuk Place,
8 Kwong Fuk Road
Tel: 2656 5207 Fax: 2657 7019
Manager: Woo Ying Kam, Alex

39 **Shatin Branch**
Portion of Shop 4-6B,
Lucky Plaza Commercial Centre
Tel: 2699 5633 Fax: 2691 4588
Manager: Yeung Lok Shan, Diane

40 **Sheung Shui Branch**
G/F, 6 Lung Sum Avenue
Tel: 2673 2729 Fax: 2673 9278
Manager: Kong Tsan Wing, Murphy

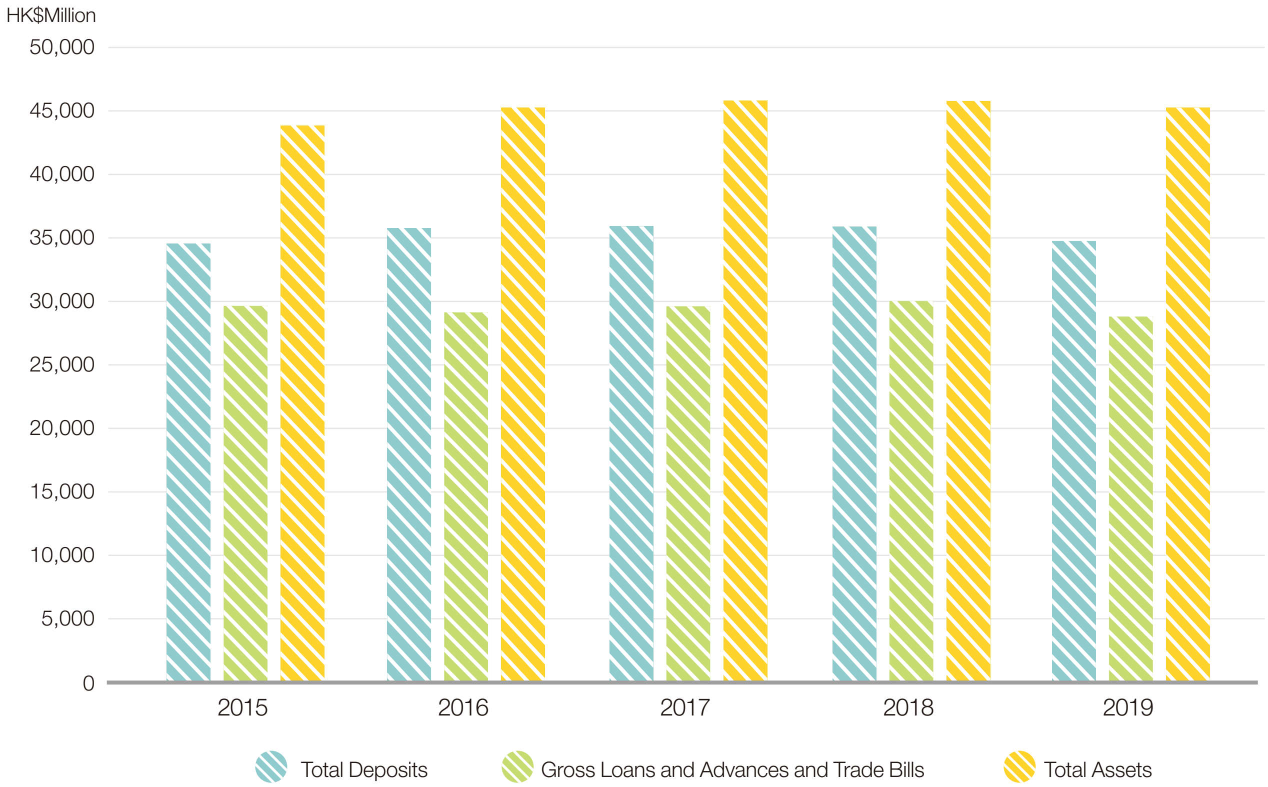
41 **Tai Wai Branch**
Shop 2C, G/F, On Tai Building
11-13 Chik Fai Street
Tel: 2609 2611 Fax: 2609 4088
Manager: Chung Wang Wai, Terry

42 **Nan Fung Centre Branch**
Rm 1523, Nan Fung Centre
264-298 Castle Peak Road
Tel: 2414 1198 Fax: 2413 1624
Manager: Chan Wai, Eddy

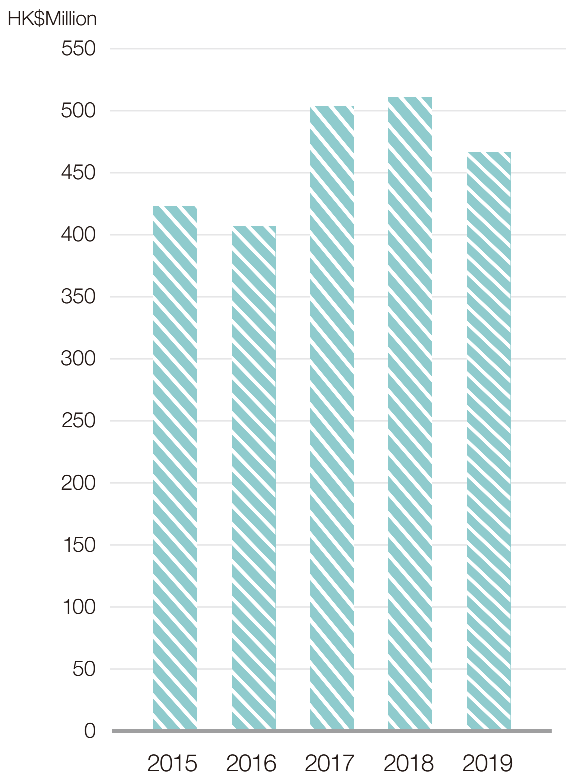
43 **Fanling Branch**
Shop 1, G/F, Wo Fung Court
8 Wo Fung Street, Luen Wo Market
Tel: 2669 0260 Fax: 2669 1187
Manager: Law Man Yan

44 **Ma On Shan Branch**
Shop A02, G/F, Ma On Shan Centre
1 On Chun Street
Tel: 2621 6428 Fax: 2621 6768
Manager: Yu Kar Kin, Ken

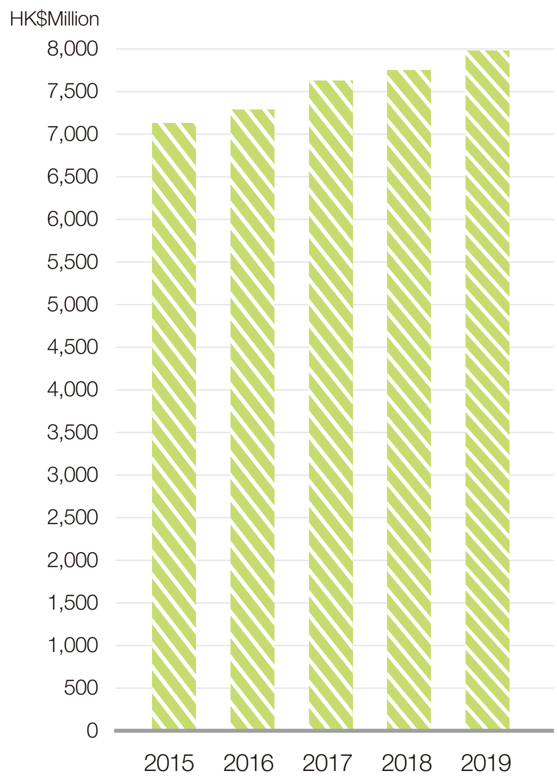
Five-year Financial Summary



Profit



Equity



Five-year Financial Summary

2019 Financial Highlights

Profit for the year:	**HK$466.3 million**
Gross loans and advances and trade bills:	**HK$28,754.8 million**
Total deposits:	**HK$34,704.7 million**
Equity:	**HK$7,977.4 million**
Earnings per share:	
Basic	**HK$0.425**
Diluted	**HK$0.425**
Total dividends per share:	**HK$0.20**

A summary of the results and of the assets and liabilities of Public Financial Holdings Limited (the "Company") and its subsidiaries (the "Group") for the last five financial years, as extracted from the published audited financial statements, is set out below.

	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Gross cash and short term placements, and placements with banks and financial institutions maturing after one month but not more than twelve months	**5,977,549**	5,510,650	6,386,628	6,479,604	4,946,345
Gross loans and advances and trade bills	**28,754,802**	29,974,965	29,564,240	29,080,723	29,600,009
Held-to-maturity investments at amortised cost	**–**	–	5,671,749	5,693,861	5,342,872
Gross held-to-collect debt securities at amortised cost	**6,079,370**	6,203,572	–	–	–
Goodwill	**2,774,403**	2,774,403	2,774,403	2,774,403	2,774,403
Other assets	**1,636,716**	1,287,300	1,379,699	1,203,944	1,157,433
Total assets	**45,222,840**	45,750,890	45,776,719	45,232,535	43,821,062
Deposits and balances of banks and other financial institutions at amortised cost	**787,235**	572,712	1,123,792	929,392	984,093
Customer deposits at amortised cost	**33,917,425**	35,284,322	33,984,095	33,721,280	33,031,821
Certificates of deposit issued at amortised cost	**–**	–	753,293	1,072,778	499,977
Dividends payable	**164,688**	186,646	175,667	142,729	142,729
Unsecured bank loans at amortised cost	**1,542,693**	1,444,614	1,581,852	1,606,143	1,642,400
Other liabilities	**833,413**	514,786	536,769	480,908	397,491
Total liabilities	**37,245,454**	38,003,080	38,155,468	37,953,230	36,698,511
Equity	**7,977,386**	7,747,810	7,621,251	7,279,305	7,122,551
Profit for the year	**466,340**	510,478	503,514	406,561	422,955
Basic earnings per share (HK$)	**0.425**	0.465	0.459	0.370	0.385
Diluted earnings per share (HK$)	**0.425**	0.465	0.459	0.370	0.385

Chairman's Statement

FINANCIAL PERFORMANCE

For the year ended 31 December 2019, the Group recorded a profit after tax of HK$466.3 million, representing a decrease of HK$44.1 million or 8.6% when compared to the previous year. The Group's basic earnings per share for 2019 was HK$0.42 (2018: HK$0.46).

Total operating income of the Group decreased by HK$28.1 million or 1.7% to HK$1.61 billion mainly from a decrease in net interest income. Total operating expenses (before changes in fair value of investment properties) increased by HK$14.5 million or 1.7% to HK$885.5 million mainly due to increase in staff related and information system costs. Gain from the changes in fair value of investment properties increased by HK$40.9 million to HK$62.6 million.

Credit loss expenses increased by HK$60.1 million or 37.1% to HK$222.1 million as compared to HK$162.0 million in the previous year. The increase of credit loss expenses was mainly due to increase in provisions for unsecured consumer financing loans.

BUSINESS PERFORMANCE

The Group's total loans and advances (including trade bills) decreased by HK$1.22 billion or 4.1% to HK$28.75 billion as at 31 December 2019 from HK$29.97 billion as at 31 December 2018. The Group's customer deposits decreased by HK$1.36 billion or 3.9% to HK$33.92 billion as at 31 December 2019 from HK$35.28 billion as at 31 December 2018.

During the year under review, Public Bank (Hong Kong) Limited ("Public Bank (Hong Kong)"), a wholly-owned subsidiary of the Company, recorded a decrease in total loans and advances (including trade bills) of HK$1.36 billion or 5.7% to HK$22.29 billion as at 31 December 2019 from HK$23.65 billion as at 31 December 2018 and decrease in customer deposits by HK$1.45 billion or 4.8% to HK$28.57 billion as at 31 December 2019 from HK$30.02 billion as at 31 December 2018.

Public Finance Limited ("Public Finance"), a wholly-owned subsidiary of Public Bank (Hong Kong), recorded a growth in total loans and advances of HK$77.9 million or 1.3% to HK$6.14 billion as at 31 December 2019 from HK$6.06 billion as at 31 December 2018 and increase in customer deposits by HK$110.3 million or 2.0% to HK$5.58 billion as at 31 December 2019 from HK$5.47 billion as at 31 December 2018.

Chairman's Statement

DIVIDENDS

The Board of Directors (the "Board") had declared a first interim dividend of HK$0.05 per share in June 2019 and a second interim dividend of HK$0.15 per share in December 2019, making a total dividend declared for the year of HK$0.20 per share (2018: HK$0.22 per share). The total dividend amounted to HK$219.6 million for 2019.

BRANCH NETWORK AND BUSINESS STRATEGY

By the end of 2019, Public Bank (Hong Kong) had a branch network of 32 branches in Hong Kong and 5 branches in Shenzhen in the People's Republic of China ("PRC"), and continued to focus on providing a broad range of commercial and retail banking services to its targeted market segments. Public Finance had a branch network of 44 branches in Hong Kong, and continued to focus on its core business in personal lendings. Another subsidiary of the Company, Winton Financial Limited ("Winton Financial"), which operates under a money lenders licence, had a network of 3 branches in Hong Kong to provide personal financing to its target customer segment. Currently, the Group has a combined network of 79 branches in Hong Kong and 5 branches in the PRC.

The Group will continue to focus on expanding its retail and commercial banking and consumer loans businesses and stockbroking services through the extensive branch network of the Group, offering competitive products whilst providing premium customer service. The Group will continue to adopt prudent and flexible business strategies and adjust to market and environmental changes accordingly in the expansion of its customer base and business.

The Group will also continue to further improve its operating cost efficiency and effectiveness by optimisation of system and staff resources, streamlining the support services and making use of synergies from the combined branch network of Public Bank (Hong Kong), Public Finance and Winton Financial.

ACKNOWLEDGEMENT

On behalf of the Board, I wish to take this opportunity to express our appreciation to the management and staff of the Group for their commitment, dedication and perseverance, and sincere gratitude to our customers for their invaluable patronage and to the shareholders for their continued confidence in and support of the Group. I would also like to express our appreciation and gratitude to the Hong Kong Monetary Authority ("HKMA"), the Securities and Futures Commission ("SFC"), The Stock Exchange of Hong Kong Limited ("Stock Exchange") and other relevant authorities for their invaluable advice, guidance and support.

Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman

Management Discussion and Analysis

OVERVIEW

The operating environment in Hong Kong was subjected to the Sino-US trade disputes and social unrests, and was challenging in the year under review. The economic outlook was uncertain with signs of slowdown/ decline in real gross domestic economic growth accompanied by weakened private domestic consumption and subdued investment spending.

The escalation of Hong Kong dollar interest rates of customer deposits from time to time also exerted pressure on profitability of financial institutions in Hong Kong. The divergence of the timing and magnitude of monetary accommodation of global regions contributed partly to the volatilities of fund flows of Hong Kong. Nevertheless, the Group continued to target at business development of loans and deposits at reasonable yields and costs cautiously to minimise credit and liquidity risk during the year under review.

FINANCIAL REVIEW

Revenue and earnings

For the year ended 31 December 2019, the Group recorded a profit after tax of HK$466.3 million, representing a decrease of HK$44.1 million or 8.6% when compared to the previous year.

The Group's basic earnings per share for 2019 was HK$0.42. The Board declared a first interim dividend of HK$0.05 per share in June 2019 and a second interim dividend of HK$0.15 per share in December 2019. The Board did not recommend the payment of a final dividend, making a total dividend for the year of HK$0.20 per share (2018: HK$0.22 per share).

For the year under review, the Group's interest income increased by HK$74.5 million or 4.0% to HK$1.96 billion from higher yields on loan portfolio, debt securities and bank placements whilst the Group's interest expense increased by HK$116.7 million or 24.4% to HK$595.6 million mainly due to higher funding costs of customer deposits. Consequently, the Group's net interest income decreased by HK$42.2 million or 3.0% to HK$1.36 billion. Total operating income of the Group decreased by HK$28.1 million or 1.7% to HK$1.61 billion. Gain from the change in fair value of investment properties increased by HK$40.9 million to HK$62.6 million.

Total operating expenses (before changes in fair value of investment properties) increased by HK$14.5 million or 1.7% to HK$885.5 million, mainly due to increase in staff related and information system costs.

Credit loss expenses increased by HK$60.1 million or 37.1% to HK$222.1 million in 2019 as compared to 2018 mainly due to increase in provisions for unsecured consumer financing loans in the current year.

Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) decreased by HK$1.22 billion or 4.1% to HK$28.75 billion as at 31 December 2019 from HK$29.97 billion as at 31 December 2018. Customer deposits decreased by HK$1.36 billion or 3.9% to HK$33.92 billion as at 31 December 2019 from HK$35.28 billion as at 31 December 2018.

As at 31 December 2019, the Group's total assets stood at HK$45.22 billion.

FINANCIAL REVIEW (Continued)

Group's branch network

In first half of 2019, Public Bank (Hong Kong), a subsidiary of the Company, opened a new branch in Qianhai, Shenzhen in PRC. Together with the opening of the new branch, Public Bank (Hong Kong) has 32 branches in Hong Kong and 5 branches in Shenzhen in the PRC to provide a broad range of commercial and retail banking services.

In the fourth quarter of 2019, Public Finance, a subsidiary of Public Bank (Hong Kong) and a deposit-taking company, opened two new branches in Hong Kong. Together with the opening of the new branches, Public Finance has a network of 44 branches in Hong Kong.

Winton Financial, another operating subsidiary of the Company which operates under a money lenders licence, has a network of 3 branches in Hong Kong to provide personal financing to its target customer segment.

In total, the Group has a combined branch network of 84 branches as at 31 December 2019 to serve its customers.

Business performance in loans and customer deposits

Public Bank (Hong Kong)

During the year under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) recorded a decrease of HK$1.36 billion or 5.7% to HK$22.29 billion as at 31 December 2019 from HK$23.65 billion as at 31 December 2018. Customer deposits (excluding a deposit from a subsidiary) decreased by HK$1.45 billion or 4.8% to HK$28.57 billion as at 31 December 2019 from HK$30.02 billion as at 31 December 2018. Impaired loans to total loans ratio of Public Bank (Hong Kong) decreased by 0.02% to 0.30% as at 31 December 2019 from 0.32% as at 31 December 2018.

Public Bank (Hong Kong) will continue to develop and expand its retail and commercial banking businesses and its core customer base, identify suitable locations for the establishment of new branches and the relocation of its existing branches in order to expand its reach of existing and potential customers, and develop its banking related financial services and stockbroking businesses.

Public Finance

Total loans and advances of Public Finance recorded a growth of HK$77.9 million or 1.3% to HK$6.14 billion as at 31 December 2019 from HK$6.06 billion as at 31 December 2018. Customer deposits increased by HK$110.3 million or 2.0% to HK$5.58 billion as at 31 December 2019 from HK$5.47 billion as at 31 December 2018. Impaired loans to total loans ratio of Public Finance increased by 0.02% to 1.98% as at 31 December 2019 from 1.96% as at 31 December 2018.

Public Finance will continue to focus on its consumer financing business and deposit takings business.

Management Discussion and Analysis

FINANCIAL REVIEW (Continued)

Significant investments

The Company has a significant investment, with a value of 5% or more of the Company's total assets, in Public Bank (Hong Kong). The principal businesses of Public Bank (Hong Kong) are discussed under the "Group's branch network" of this section. The investment cost in the subsidiary amounted to HK$6.59 billion or 69.2% of total assets of the Company, and such cost reflected the fair value of the Company's investment. Public Bank (Hong Kong)'s business strategy focuses on its loan development, deposit-taking, stockbroking and bancassurance business operations; and continues to strike a balance between pursuing business growth and maintaining sound liquidity and asset quality. Public Bank (Hong Kong) recorded a profit of HK$443.1 million on consolidated basis, which represented 6.7% in regard to the return of the Company's investment. Further details of such investment (including the number and percentage of shares held) in Public Bank (Hong Kong) are shown in note 1 to the financial statements of this annual report.

Segmental information

The Group's businesses comprise three main segments: (i) retail and commercial banking businesses, (ii) stockbroking and wealth management services, and (iii) other businesses. 95.8% of the Group's operating income and 83.7% of the profit before tax were contributed by retail and commercial banking businesses for the year under review. When compared to the previous year, the Group's operating income from retail and commercial banking businesses decreased by HK$31.2 million or 2.0% to HK$1.54 billion mainly due to the decrease in net interest income of the Group. Profit before tax from retail and commercial banking businesses for 2019 decreased by HK$103.7 million or 18.1% to HK$469.0 million due to the decrease in net interest income in the current year.

Contingent liabilities and commitments

The Group has no material contingent liabilities (other than those in the normal course of its banking and finance businesses related to treasury and trade finance activities and loan commitments as disclosed in the notes to the financial statements) as at the end of the year under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the year under review. There was no material funding required for capital expenditure and its commitments. The Group did not have plans for material investments or purchases of capital assets in the near term. As at 31 December 2019, there was no charge over the assets of the Group. There was also no important event affecting the Group which had occurred since 31 December 2019.

OPERATIONAL REVIEW

Funding and capital management

The main objective of the Group's funding activities is to ensure the availability of funds at reasonable cost to meet all contractual financial commitments, to fund growth in loans and advances and to generate reasonable returns from available funds. The Group also encourages its subsidiaries to be self-sufficient in funding their business growth. The Group did not have material acquisitions or disposals of subsidiaries and associates during the year under review.

OPERATIONAL REVIEW (Continued)

Funding and capital management (Continued)

The Group relies principally on its internally generated capital, customer deposits, deposits from financial institutions and the issuance of certificates of deposit to fund its consumer financing business and its retail and commercial banking business. The Group's bank borrowings in the form of term loans denominated in Hong Kong dollars ("HKD") at floating interest rates stood at HK$1.54 billion as at the end of 2019. Based on the level of bank borrowings as compared to the equity of the Group, the Group's gearing ratio remained at a healthy level of 0.19 times as at 31 December 2019, which was relatively the same as compared to the position of 31 December 2018. The bank borrowings as at 31 December 2019 had remaining maturity periods of less than three years. In the normal course of its commercial banking business, Public Bank (Hong Kong) had entered into foreign exchange and interest rate swaps and forward contracts to reduce the foreign exchange rate risk and interest rate risk exposures of the Group. Exposures to fluctuations in foreign exchange rates and interest rates were minimal. There were also no foreign currency net investments hedged by foreign currency borrowings and other hedging instruments during the year under review.

The consolidated common equity tier 1 capital ratio ("CET1") and total capital ratio of Public Bank (Hong Kong) Group (inclusive of Public Bank (Hong Kong) and Public Finance) stood at 19.7% and 20.9% respectively as at 31 December 2019.

Asset quality and credit management

The Group's impaired loans to total loans ratio increased by 0.02% to 0.67% as at 31 December 2019 from 0.65% as at 31 December 2018. The Group will continue to safeguard its capital adequacy position, manage risks cautiously and undertake prudent yet flexible business development strategies to strike a balance between business/income growth and prudent risk management.

The direct exposures to United Kingdom and Europe were assessed as insignificant and manageable as the core operations of the Group are principally based in Hong Kong.

Human resources management

The Group is committed to promoting a sound corporate culture by setting out culture values including (but not limited to) caring attitude; discipline; ethics and integrity; excellence; trust; and prudence. The culture values are articulated in policies, procedures and processes that are relevant to the day-to-day or routine business/ supporting operations, training and performance appraisal of the Group's staff. Dedicated heads of key departments are responsible to assist the Board to set out the culture related behavioural expectations of staff in carrying out their day-to-day responsibilities; build up an effective, continual and regular communication channel to share examples of misconduct, improper behaviour and disciplines with the staff for their alerts; promote an open exchange of views in relation to culture and behavioural standards; and put in place a clear ownership structure for core risks and culture reform initiatives.

The objective of the Group's human resources management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives taking into account both business performance and the adherence to the Group's culture and behavioural standards, and to promote career development and progression within the Group. Staff enroll in external training courses, seminars, professional and technical courses in order to update their technical knowledge and skills, to increase their awareness of the market and regulatory developments, and to improve their management and business skills. Staff also participate in social activities organised by the Group to promote team spirit and social responsibility to the community.

As at 31 December 2019, the Group's staff force stood at 1,357 employees. For the year ended 31 December 2019, the Group's total staff related costs amounted to HK$553.1 million.

Management Discussion and Analysis

PROSPECTS

The economic outlook of Hong Kong is anticipated to be uncertain and challenging in the year 2020 partly due to the prolonged social unrests in Hong Kong which are expected to have an adverse effect on the business operations/environment and the tourists' arrivals into Hong Kong. The Sino-US tariffs are expected to impact global supply chain and trade activities with potential increase of geopolitical and contagion risks posed to global nations. The corporate investments/business expansions and individuals' private consumption are expected to be constrained, which would slow down loan demand and loan growth momentum to some extent in Hong Kong and China. Nevertheless, more trade negotiations and truces may be reached in different phases to mitigate the impact of the lingering Sino-US trade tensions despite that a number of Sino-US structural issues remain unresolved.

The competitive and volatile operating environment in the banking and financing industry in Hong Kong will continue to exert pressure on the pricing of banking and financing products. The increase in compliance related and system related costs in meeting the regulatory and supervisory requirements are expected to impact the cost efficiency and earnings growth of banks and financial institutions in Hong Kong. Despite the foregoing, the Group will continue to pursue long-term business and profitability growth in line with its corporate mission and goals. The Group will continue to adopt prudent capital management and liquidity risk management to preserve adequate buffer to meet the challenges ahead.

The Group will continue to seek loans at higher yields in anticipation of higher funding costs. The Group will continue to adopt sound and flexible marketing strategies to expand customer base and channels of services, launch attractive marketing promotions at reasonable costs, and optimise the utilisation of system resources to enhance service quality and efficiency of banking operations. The Group will also strive for the diversification of income streams by development of fee-based businesses in stockbroking and insurance businesses.

The Group will continue to focus on expanding its retail and commercial banking business and its consumer financing business through its extensive branch network, offering of premium business service, supporting its growth in loan developments, deposit takings and fee-based businesses, and implementing appropriate marketing strategies at reasonable costs. The Group will also continue to target at selected market segments of Public Bank (Hong Kong), Public Finance and Winton Financial to grow its retail and commercial lending business and consumer financing business.

Barring unforeseen circumstances, the Group will endeavour to register growth in its banking and financing businesses and improvement in its financial performance in 2020. The Group is also committed to fostering a healthy and strong corporate culture to enhance the Group's cohesiveness with shared vision and values by every staff in the Group.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to adhere to a high standard of corporate governance to safeguard the interests of shareholders, customers, service vendors, peer banks, regulators, employees and other stakeholders.

The Company has complied with the code provisions ("Code Provision(s)") of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviations under Code Provision A.4.1 and Code Provision E.1.2 of the CG Code as explained below with considered reasons for such deviations:

1. Under Code Provision A.4.1 of the CG Code, non-executive directors shall be appointed for a specific term and subject to re-election. The Board is of the view that the current practice of appointing Non-Executive Directors without a specific term but otherwise subject to rotation and re-election by shareholders at an annual general meeting ("AGM") of the Company is fair and reasonable, and does not intend to change the current practice at the moment.

2. Under Code Provision E.1.2 of the CG Code, the chairman of the board shall attend the AGM. Tan Sri Dato' Sri Dr. Teh Hong Piow, the Board Chairman of the Company, was absent from the 2019 AGM of the Company held in March 2019 due to other engagement. The 2019 AGM was chaired by the Co-Chairman of the Board, Mr. Lai Wan. The Chairmen of the Company's Audit Committee, Remuneration Committee and Nomination Committee (re-organised as the Nomination and Remuneration Committee with effect from 1 January 2020), and the respective Chairmen of the Board Committees of Public Bank (Hong Kong) and Public Finance were also present at the 2019 AGM.

Save as disclosed above, the principles as set out in the CG Code have been applied in our corporate governance structure.

The Board has taken actions and measures to make sure that the Company is in all aspects in strict compliance with the Listing Rules and the CG Code. The current practices are reviewed and updated regularly to be in line with the local and international corporate governance practices. Public Bank (Hong Kong) and Public Finance, both being the major subsidiaries of the Company, are a licensed bank and a deposit taking company respectively. They are incorporated in Hong Kong and are under the supervision of the HKMA. The respective Boards are fully committed to adopting and implementing the principles and best practices in corporate governance as set out in the Supervisory Policy Manual Module CG-1 on "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the HKMA. Specialised committees with clear terms of references and specific authorities delegated by the Boards, i.e. the Board Committees, have been set up by Public Bank (Hong Kong) and Public Finance.

Corporate Governance Report

BUSINESS MODEL AND STRATEGY

The Group has the mission to excel in customer service in retail and commercial banking and other businesses whilst maintaining long-term profitability and assets growth with adoption of flexible business model and strategy and prudential risk and capital management framework. The Board and the management have played and will continue to play a proactive role in the Group's development of business model to preserve the culture of the Group in serving customers well with premium service quality; the Group's business strategic drive for business expansion; the input to setting the Group's risk appetite and tolerance levels; and the Group's setting of strategic goals, priorities and initiatives undertaken to motivate staff to achieve business and financial targets. During the meetings of the Boards, Board Executive Committees, Business Strategy Steering Committees and Management Committees held by the Group companies during the year 2019, strategic priorities and business options were discussed and followed up on the implementation status. Details of the Group's business performance and financial review for the year 2019 are set out in the "Management Discussion and Analysis" section of this annual report.

BOARD OF DIRECTORS

Board Composition

The Board of the Company during the year and up to the date of this annual report comprised:

Non-Executive Directors	:	Tan Sri Dato' Sri Dr. Teh Hong Piow, Chairman Quah Poh Keat Dato' Chang Kat Kiam Chong Yam Kiang
Independent Non-Executive Directors	:	Lai Wan, Co-Chairman Lee Chin Guan Tang Wing Chew
Executive Directors	:	Tan Yoke Kong Lee Huat Oon (resigned effective from 1 January 2020 due to retirement)

The Non-Executive Directors provide the Group with a wide range of expertise and knowledge in the banking and finance sector. The Independent Non-Executive Directors are persons of high calibre; with academic and professional qualifications in the fields of accounting, law, banking and business management. With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. The Independent Non-Executive Directors do not participate in the day-to-day management of the Company and do not involve themselves in business transactions or relationships with the Company, in order not to compromise their objectivity. In staying clear of any potential conflict of interest, the Independent Non-Executive Directors remain in a position to fulfill their responsibility to provide check and balance to the Board of the Company. The Independent Non-Executive Directors have given annual confirmations of their independence to the Company. From the annual confirmation of Mr. Lee Chin Guan, it was noted that he was a Non-Independent Non-Executive Director of Public Bank Berhad ("Public Bank"), the Company's holding company, appointed with effect from 27 December 2018. Having considered the current and future roles and duties of Mr. Lee as being a Non-Independent Non-Executive Director of Public Bank which he does not take up any executive roles and duties and is not involved in the daily management of business operations of Public Bank. The Company is of the view that the reasons for the appointment of Mr. Lee as a Non-Independent Non-Executive Director of Public Bank will not affect the independence of Mr. Lee as an Independent Non-Executive Director of the Company under Rule 3.13(7) of the Listing Rules. The Company also considers the three Independent Non-Executive Directors to be independent under Rule 3.13 of the Listing Rules.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Board Composition (Continued)

Biographical details of the Directors are set out in the "Brief Biography of Directors" section of this annual report.

The updated list of Directors of the Company identifying their roles and functions and whether they are Independent Non-Executive Directors is available on the websites of the Company and of the Stock Exchange. Independent Non-Executive Directors are also identified as such in all corporate communications that disclose the names of Directors of the Company.

The Board formulates overall strategic plans and key policies of the Group, monitors its financial performance, maintains effective oversight over the management, risks assessment, controls over business operations and ensures good corporate governance and compliance with legal and regulatory requirements. The Board members are fully committed to their roles and have acted in good faith to maximise the shareholders' value in the long run, and have aligned the Group's goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

Board Process

The schedule of Board meetings for a year is planned in the preceding year. At least 14 days' notice of all Board meetings is given to all Directors and they can include matters for discussion in the agenda if the need arises. The Company Secretary assists the Board in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. The agenda and the accompanying Board papers are sent to all Directors at least 3 days before the date of Board meeting so that the Directors have the time to review the documents.

Board meetings are normally chaired by the Independent Non-Executive Co-Chairman who has the responsibility of ensuring that each of the agenda items is adequately reviewed and thoroughly deliberated within a reasonable time frame. During his absence, one of the Directors as nominated by him in writing will assume the role as the Chairman of the meeting.

Minutes of each Board meeting record in sufficient details the matters considered and decisions made, including any concerns or views of the Directors or dissenting views expressed. Final drafts of minutes are circulated to all Directors for their perusal prior to confirmation of the minutes at the subsequent Board meeting. The Directors may request for clarification or raise comments before the minutes are tabled for confirmation. Upon receiving confirmation from the members at the Board meetings, the minutes will be signed by the Chairman of the meeting as a correct record of the proceedings of the meeting and kept by the Company Secretary, and are open for inspection by Directors.

Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary to enable them to discharge their duties effectively, and has the liberty to seek external professional advice if so required. The cost of procuring these professional services will be borne by the Company. The Board also has direct access to the senior management and has unrestricted and immediate access to any information relating to the Company's business and affairs in the discharge of their duties.

The Directors may request to be furnished with additional information or clarification, particularly in respect of complex and technical issues tabled to the Board.

During the year, nine scheduled Board meetings and an AGM were held.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Board Process (Continued)

Details of Directors' attendance at the Board meetings, Board Committee meetings and AGM in 2019 are set out as follows:

Directors	Number of meetings attended/held in 2019						
		Board Committee Meetings					General Meeting
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee of Public Bank (Hong Kong)	Risk Management Committee of Public Finance	AGM
Number of meetings held during the year	9	7	1	3	6	6	1
Non-Executive Directors							
Tan Sri Dato' Sri Dr. Teh Hong Piow (Chairman)	8/9	–	–	–	–	–	0/1
Quah Poh Keat	9/9	7/7	1/1	3/3	6/6	6/6	1/1
Dato' Chang Kat Kiam	9/9	7/7*	1/1*	3/3*	6/6	6/6	1/1
Chong Yam Kiang	9/9	–	–	–	–	–	1/1
Independent Non-Executive Directors							
Lai Wan (Co-Chairman)	9/9	7/7	1/1	3/3	6/6	6/6	1/1
Lee Chin Guan	9/9	7/7	1/1	3/3	6/6	6/6	1/1
Tang Wing Chew	9/9	7/7	1/1	3/3	6/6	6/6	1/1
Executive Directors							
Tan Yoke Kong	9/9	7/7*	1/1*	3/3*	6/6*	–	1/1
Lee Huat Oon (resigned effective from 1 January 2020)	9/9	7/7*	–	–	–	6/6*	1/1
Average Attendance Rate	98%	100%	100%	100%	100%	100%	88%

* By invitation

Board meetings were held to perform various board functions, including to discuss the business strategies of the Group; approve the Group's financial budget; monitor financial and operational performance; approve the annual and interim results and their release to the public; approve the payments of interim dividends; and set measurable objectives for the Board Diversity Policy, etc.

During the year, a meeting of the Co-Chairman and the Independent Non-Executive Directors without the presence of executives or other representatives of the Group was held to discuss issues that they wish to raise at the Board.

BOARD OF DIRECTORS (Continued)

Board Process (Continued)

During the year, the Independent Non-Executive Directors also met with the external auditors in the absence of Executive Directors and management to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the external auditors may wish to raise.

A joint meeting of Independent Non-Executive Directors with Internal Audit, Risk Management and Compliance functions of Public Bank (Hong Kong) and Public Finance without the presence of Executive Directors and management was also held to discuss any issues they wish to raise.

Chairman and Chief Executive

The Chairman and the Chief Executive of the Company are Tan Sri Dato' Sri Dr. Teh Hong Piow and Mr. Tan Yoke Kong respectively. Mr. Lai Wan, an Independent Non-Executive Director, is the Co-Chairman of the Company to assist and share the duties and functions of the Chairman.

The roles of the Chairman and the Chief Executive are segregated and assumed by two separate individuals who have no relationship with each other. It is aimed at striking a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman of the Board is responsible for the leadership and effective running of the Board, while the Chief Executive is delegated with the authorities to manage the business of the Group in all aspects effectively. The division of responsibilities between the Chairman and the Chief Executive has been clearly established and set out in writing.

Appointment and Re-election of Directors

The Company has not fixed a specific term of appointment for Non-Executive Directors. However, they are appointed subject to retirement by rotation and re-election at the AGM of the Company in accordance with the provision of the Company's Bye-laws. This deviates from the CG Code which requires that non-executive directors be appointed for a specific term. The Board is of the view that the current practice of appointing Non-Executive Directors without a specific term but otherwise subject to rotation and re-election by shareholders is fair and reasonable, and does not intend to change the current practice at the moment.

Company Secretary

The Joint-secretaries, Mr. Tan Yoke Kong and Ms. Chan Sau Kuen, both are employees of the Company, play an important role in supporting the Board by ensuring good information flow within the Board and the Board Committees; and disseminating the decisions/policies made by the Board/Board Committees to relevant departments/staff for follow up/implementation, and ensure that the Board policies and procedures are followed by business units, various departments and employees of the Group. They are also responsible for ensuring that the relevant rules and regulations issued by the regulatory authorities as well as the Company's Memorandum of Association and Bye-laws are complied with. The Joint-secretaries assist the Chairman and the Board in implementing and strengthening corporate governance practices and processes of the Company. They also attend and ensure that all Board and Board Committees meetings are properly convened, and that accurate and proper record of the proceeding and resolutions passed are taken and maintained.

The Joint-secretaries assist the Chairman in ensuring efficient flow of information from the Board or Board Committees to management for action. The Board approves the selection, appointment or dismissal of the Joint-secretaries. They report to the Board Chairman and/or the Chief Executive of the Company. All Directors have direct access to the advice and services of the Joint-secretaries.

During the year, both Joint-secretaries have taken no less than 15 hours of relevant professional training.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Directors' Training and Professional Development

All Directors shall keep abreast of the responsibilities as a director, and of the conduct and business activities of the Company. The Company is responsible for arranging and funding suitable training for its Directors. Accordingly, the Company has put in place a training and development programme for the Directors including: (i) a comprehensive induction programme on the laws and regulations affecting directors and the Company, business operations, knowledge and current development of the banking and finance industry and the role, responsibilities and potential liabilities of directors for newly appointed Directors; and (ii) an on-going training and professional development programme for the Directors.

During the year, all the Directors have participated in a series of training locally or overseas which included, among others:

– development of national and global economy;

– corporate governance issues;

– regulatory updates; and

– banking industry development trend, etc.

The Directors have provided to the Company their records of training received in the year. All the then Directors of the Company namely Tan Sri Dato' Sri Dr. Teh Hong Piow (Chairman), Mr. Lai Wan (Co-Chairman), Mr. Tan Yoke Kong, Mr. Chong Yam Kiang, Mr. Lee Huat Oon, Mr. Quah Poh Keat, Dato' Chang Kat Kiam, Mr. Lee Chin Guan and Mr. Tang Wing Chew complied with Code Provision A.6.5 of the CG Code during the year.

During the year, the Directors of the Company were also provided with monthly commentaries on the Group's business, operations, and financial matters as well as regular updates on applicable legal and regulatory requirements.

Directors' Code of Ethics

The Directors observe a code of ethics (the "Code of Ethics") which has been formulated and adopted by the Company, to enhance the standard of corporate governance and corporate behaviour. The principles on which the Code of Ethics relies are those that concern transparency, integrity, accountability, corporate social responsibility and long-term sustainability taking into account the relevant provisions/requirements by the governing authorities. If a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be dealt with by a Board meeting at which the Independent Non-Executive Directors who, and whose close associates, have no material interest in the transaction shall be present. Under the Bye-laws of the Company, a Director shall not vote or be counted in the quorum in respect of any contract, arrangement or other proposal in which he/she or any of his/her associate(s) has/have any material interest.

BOARD OF DIRECTORS (Continued)

Directors' Securities Transactions

The Company has adopted its own code for securities transactions by Directors on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. All Directors confirmed, following specific enquiry by the Company, that they have complied with the required standards as set out in the Model Code and the Company's own code for securities transactions by Directors throughout the year.

Indemnification of Directors and Officers

The Directors and officers are indemnified under a directors' and officers' liability insurance against any liability incurred by them in the discharge of their duties while holding the office as the Directors and officers of the Company. The Directors and officers shall not be indemnified where there is any negligence, fraud, breach of duty or breach of trust proven against them.

Board Diversity Policy

The Company recognises that increasing diversity at the Board level will support the attainment of the Company's strategic objectives and sustainable development.

The Board has adopted a Board Diversity Policy, which sets out the approach to achieve and maintain diversity on the Board. This policy was updated in the year.

Pursuant to the Board Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of service and any other factors that the Board may consider relevant and applicable from time to time. High emphasis is placed on ensuring a balanced composition of skills, experience and background at the Board level. The Company also takes into consideration the benefits of diversity on the Board and also the needs of the Board without focusing on a single diversity aspect in determining the optimal composition of the Board.

Selection of candidates will be based on the Group's Director Nomination Policy and will take into account this Policy. The measurable objectives/specific diversity targets will be reviewed from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained. Nomination and Remuneration Committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

The Board Diversity Policy is available on the website of the Company for public information.

Director Nomination Policy

Director Nomination Policy of the Group is in place and was updated in the year taking into consideration the new requirements under Code Provision A.5.5 of the CG Code effective from 1 January 2019. The updated Policy sets out the procedures, process and criteria for identifying and recommending candidates for election to the Board. No candidate was nominated for directorship in 2019.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Corporate Governance Policy

The Group believes that good corporate governance practices are essential for effective management to enhancing shareholders' value. The Board has adopted a Corporate Governance Policy which sets out the approach in maintaining a high standard of corporate governance practices and procedures in the Group.

The corporate governance principles of the Group emphasise on maintaining an effective Board, sound risk management and internal control systems, high standards of corporate responsibility and sustainability, and high degree of transparency and accountability, and thereby safeguard the interests of our shareholders, customers, employees and other stakeholders in a sustainable manner.

The Corporate Governance Policy sets out the following principles to follow in respect of the corporate governance practices of the Group:

1. To maintain an excellent Board with balanced composition of Board members and support from various Board Committees and Management Committees.

2. To achieve Board diversity pursuant to the Board Diversity Policy of the Company.

3. To formulate and oversee the risk management strategies, and the related framework and policies with the assistance of the Risk Management Committees ("RMCs") of Public Bank (Hong Kong) and Public Finance and other relevant Board Committees.

4. To ensure that there is a sound and fair remuneration system in place.

5. To provide a balanced, clear and comprehensible assessment of the financial performance and prospects of the Group in all the disclosures made to the stakeholders and the regulatory authorities, and to maintain sound risk management and internal control systems and review their adequacy and effectiveness from time to time.

6. To maintain effective communications with shareholders and keep the shareholders informed of the business and affairs of the Company by maintaining various channels of communications and having direct dialogue with shareholders. Shareholders Communication Policy is in place to ensure effective ongoing dialogue with the shareholders.

7. To protect and serve, with due care and consideration of, the interest of all stakeholders.

8. To develop the Group's business in a sustainable way and participate in activities that are beneficial to the sustainable growth of the Group and the community.

9. To review and enhance its Corporate Governance Policy to ensure that it is in line with local and international corporate governance practices, and to disclose information concerning the Group in a timely, clear and objective manner.

BOARD OF DIRECTORS (Continued)

Corporate Governance Policy (Continued)

During the year, the Board had performed the following corporate governance functions which are included in the Board's terms of reference:

1. Reviewed the structure, size and composition of the Board pursuant to Code Provision A.5.2(a) of the CG Code under the Listing Rules.

2. Reviewed and discussed the Board Diversity Policy.

3. Reviewed the governance procedures and practices of the Group.

4. Reviewed and approved the amendments to: (i) Corporate Governance Policy; (ii) Director Nomination Policy; (iii) Board Diversity Policy; (iv) Corporate Social Responsibility Policy; and (v) Code for Securities Transactions by Directors and Relevant Employees.

5. Conducted annual review of (i) Succession Planning Policy; (ii) Policy on Payment of Dividend; and (iii) Procedures for Shareholders to Propose a Person for Election as a Director of the Company.

6. Reviewed the training, professional development and time commitment disclosure of the Directors.

BOARD COMMITTEES

Audit Committee

The Audit Committee of the Company comprises three Independent Non-Executive Directors and one Non-Executive Director, and chaired by an Independent Non-Executive Director.

The major roles and functions of the Company's Audit Committee are as follows:

1. To draw up, review and update periodically a written charter of the Audit Committee for the Board's approval.

2. To evaluate and approve the appointment, replacement, dismissal, performance and remuneration of the Head of Internal Audit.

3. To approve the recruitment and dismissal of the managerial staff of Internal Audit Department.

4. To evaluate and approve the performance and remuneration of the managerial staff of Internal Audit Department.

5. To review the internal audit charter drawn up and updated periodically by the Head of Internal Audit, and recommend to the Board for approval.

6. To consider the appointment, re-appointment and removal of the external auditors, the audit fees, terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors in the Group.

7. To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and discuss with the external auditors on the nature and scope of the audit.

Corporate Governance Report

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

8. To develop and implement policy on the engagement of an external auditor to supply non-audit services.

9. To ensure the integrity of the Group's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them, before recommending to the Board for approval.

10. To discuss matters arising from the interim and final audits, and any matters the auditors may wish to discuss, and consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, and give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance officer or auditors.

11. To review the Group's financial controls, internal control and risk management systems.

12. To discuss and review the risk management and internal control systems and ensure that management has discharged its duty to have effective systems including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function.

13. To approve the audit plan and internal audit framework, review the effectiveness of internal audit programme, ensure co-ordination between the internal and external auditors as well as regulatory authorities, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor its effectiveness.

14. To review reports of the Internal Audit Department and the internal audit function's work, including overall conclusions or assessments, key findings, material risks and issues, and follow-up of management's resolution of identified issues.

15. To establish a mechanism to assess the performance and effectiveness of the internal audit function.

16. To consider the major findings of internal investigations and management's response.

17. To review significant recommendations made by Internal Audit Department and management plans for their implementation.

18. To review the Group's financial and accounting policies and practice.

19. To review the external auditors' management letters, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response, and to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter.

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

20. To establish a whistleblowing policy and system for employees of the Group and those who deal with the Group to raise concerns, in confidence and without the risk of reprisals, about possible improprieties in financial reporting, internal control or other matters related to the Group and to ensure that proper arrangements are in place for the fair and independent investigation of these matters and for appropriate follow-up action.

21. To review the effectiveness of the whistleblowing policy and system from time to time and the results of the review shall be reported to the Audit Committee at least annually.

22. To act as the key representative body for overseeing the Group's relation with the external auditors and the regulatory authorities.

The terms of reference of the Audit Committee are available on the websites of the Company and of the Stock Exchange.

The Audit Committee meets at least four times a year. Seven meetings were held during the year, three of which were in the presence of the external auditors. The minutes of the Audit Committee meetings were tabled to the Board for noting and for action where appropriate.

During the year, the Audit Committee had performed the following work:

1. Reviewed the financial results and reports of the Group for the year ended 31 December 2018 and for the six months ended 30 June 2019.

2. Reviewed the audit progress, findings and recommendations of Internal Audit Department on the operations and performance of the branches and departments of Public Bank (Hong Kong), Public Finance and other subsidiaries of the Group.

3. Reviewed the management's assessment on the re-appointment of the external auditors for the financial year ended 31 December 2019 and proposed the re-appointment of Messrs. Ernst & Young as the external auditors for 2019.

4. Approved the internal audit plan for 2020 of Winton (B.V.I.) Limited and its subsidiaries.

5. Reviewed the adequacy and effectiveness of risk management and internal control system and processes of the Group for the year ended 31 December 2018.

6. Reviewed the external auditors' statutory audit plan, audit scope, engagement letters and audit results.

7. Reviewed a letter issued by external auditors pursuant to paragraph 290.28 of the Code of Ethics for Professional Accountants and the external auditor's report on the 2018 audit results.

8. Reviewed the results of the validation conducted on the HKFRS 9 Model and the proposed recommendations/enhancements prepared by Risk Management Department of Public Bank (Hong Kong).

Corporate Governance Report

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

9. Noted the meeting minutes of the Audit Committees of Public Bank (Hong Kong) and Public Finance.

10. Noted the revised Audit Grading Frameworks of Public Bank (Hong Kong) and Public Finance.

11. Noted the revised Internal Audit Succession Planning Frameworks of Public Bank (Hong Kong) and Public Finance.

12. Noted the revised Whistleblowing Policy and Procedure of Public Bank (Hong Kong) and cases reported, if any.

13. Noted the revised Internal Audit Charters of Public Bank (Hong Kong) and Public Finance.

14. Noted the 2020 Internal Audit Plans of Public Bank (Hong Kong) and Public Finance.

15. Noted the Internal Audit's Annual Assurance Statements for 2019 of Public Bank (Hong Kong) and Public Finance.

Public Bank (Hong Kong) and Public Finance have established their respective Audit Committees with almost the same composition of members and similar terms of reference as those of the Company's Audit Committee, pursuant to the requirements of the HKMA. These Committees held regular meetings during the year to perform their functions as specified in the terms of reference.

Nomination and Remuneration Committee

The Nomination Committee and the Remuneration Committee of the Company have been re-organised into Nomination and Remuneration Committee with effect from 1 January 2020 (the "Re-organisation") with the same Chairman and the same composition of members as before the Re-organisation.

Remuneration Committee before the Re-organisation

The Remuneration Committee of the Company comprises three Independent Non-Executive Directors and one Non-Executive Director, and chaired by an Independent Non-Executive Director.

The major roles and functions of the Company's Remuneration Committee are as follows:

1. To review the management remuneration proposals with reference to the Board's goals and objective.

2. To review annually and recommend to the Board on the overall remuneration policy and structure for the Executive Directors, Chief Executive and senior management.

3. To review annually the performance of the Executive Directors, Chief Executive and senior management and recommend to the Board specific adjustments in remuneration and/or reward payments.

BOARD COMMITTEES (Continued)

Nomination and Remuneration Committee (Continued)

Remuneration Committee before the Re-organisation (Continued)

4. To review regularly and recommend to the Board the level of remuneration for Non-Executive Directors and Independent Non-Executive Directors, and ensure that the level of remuneration for Non-Executive Directors and Independent Non-Executive Directors are linked to their level of responsibilities undertaken and contribution in terms of time commitment to the effective functioning of the Board.

5. To keep abreast of the terms and conditions of service of the Executive Directors, Chief Executive and senior management including their total remuneration package for market comparability, and review and recommend changes to the Board whenever necessary.

6. To review and recommend to the Board the compensation payable to the Executive Directors, Chief Executive and senior management in connection with any loss or termination of their office or appointment.

7. To review and recommend to the Board the compensation arrangements relating to dismissal or removal of Directors for misconduct.

8. To ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The Remuneration Committee meets at least once a year. One meeting was held during the year.

During the year, Directors' fees for 2018, the annual salary review for employees and payment of discretionary bonus and merit bonus for 2018 had been reviewed and recommended by the members of the Remuneration Committee.

The emolument payable to Directors depends on their respective contractual terms under employment contracts, if any, and as recommended by the former Remuneration Committee and approved by the Board. Details of the Directors' remuneration are set out in note 12 to the financial statements.

Pursuant to the requirements of the HKMA, Public Bank (Hong Kong) and Public Finance have established their respective Remuneration Committees, both having almost the same composition of members and the terms of reference are similar as those of the Company's Remuneration Committee. These Committees held meetings to perform their functions as specified in the terms of reference during the year.

Corporate Governance Report

BOARD COMMITTEES (Continued)

Nomination and Remuneration Committee (Continued)

Nomination Committee before the Re-organisation

The Nomination Committee of the Company comprises three Independent Non-Executive Directors and one Non-Executive Director, and chaired by an Independent Non-Executive Director.

The major roles and functions of the Company's Nomination Committee are as follows:

1. To identify and recommend to the Board the appointment and re-appointment of Directors, Chairman, Chief Executive, Alternate Chief Executive(s) and senior management positions and their succession planning.

2. To oversee the overall composition of the Board in terms of the appropriate size and skills, and the balance between Executive Directors, Non-Executive Directors and Independent Non-Executive Directors through annual review, with due regard for the benefits of diversity on the Board and the Group's corporate strategy.

3. To assess the independence of Independent Non-Executive Directors.

4. To establish a mechanism for the formal assessment on the effectiveness of the Board as a whole, contribution of each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of Chief Executive, Alternate Chief Executive(s) and other senior management.

5. To recommend to the Board the removal of Director(s)/Chief Executive/Alternate Chief Executive(s)/senior management if they are ineffective, errant and negligent in discharging their responsibilities.

6. To review the contributions required from the Directors and assess whether sufficient time has been given in performing their responsibilities.

7. To ensure that the Directors receive appropriate continuous training.

8. To formulate and review the Board Diversity Policy, as appropriate; and make disclosure of the Board Diversity Policy or a summary of the policy including the measurable objectives set for implementing the policy and the progress on achieving these objectives in the Corporate Governance Report annually.

9. To develop and review the Group's policies and practices on corporate governance.

BOARD COMMITTEES (Continued)

Nomination and Remuneration Committee (Continued)

Nomination Committee before the Re-organisation (Continued)

The Nomination Committee is authorised by the Board to investigate any activity within its terms of reference and to obtain legal or other independent professional advice at the Company's expense.

The Nomination Committee meets at least once a year. Three meetings were held during the year.

During the year, the Nomination Committee reviewed and noted, inter-alia, movement of senior staff in the Group; re-election of retiring Directors; the size, composition and structure of the Board; results of annual assessment on effectiveness of the Board and for each of the Non-Executive Directors and Independent Non-Executive Directors for the year 2018; assessment of independence of the Independent Non-Executive Directors; time commitment; and training attended by the Directors. In addition, it also reviewed and recommended to the Board for approval/noting: (i) the amendments to various policies relating to Directors and/or corporate governance matters; (ii) the governance procedures and practices; (iii) the Board Diversity Policy, its progress on achieving pre-set objectives and setting measurable objectives for 2020; (iv) employment contract extension of senior management staff; (v) succession plan for senior management positions and (vi) resignation of Mr. Lee Huat Oon as Executive Director of the Company.

Pursuant to the requirements of the HKMA, Public Bank (Hong Kong) and Public Finance have established their respective Nomination Committees, both having almost the same composition of members and the terms of reference are similar as those of the Company's Nomination Committee. As such, the respective Committees held meetings to perform their functions as specified in the terms of reference during the year.

Nomination and Remuneration Committee (effective from 1 January 2020)

The Nomination and Remuneration Committee of the Company comprises three Independent Non-Executive Directors and one Non-Executive Director, and chaired by an Independent Non-Executive Director.

The major roles and functions of the Company's Nomination and Remuneration Committee are basically similar to those of the Nomination Committee and Remuneration Committee before the Re-organisation, details of which are set out in earlier paragraphs.

The terms of reference of the Nomination and Remuneration Committee are available on the websites of the Company and of the Stock Exchange.

The Nomination Committee and Remuneration Committee of each of Public Bank (Hong Kong) and Public Finance have also been re-organised into Nomination and Remuneration Committee with effect from 1 January 2020 with the same Chairman and the same composition of members as before the re-organisation.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is committed to providing a balanced, clear and comprehensible assessment of the financial performance and prospects of the Group in all the disclosures made to the stakeholders and the regulatory authorities.

Timely release of interim and annual results announcements reflects the Board's commitment to provide transparent and up-to-date disclosures of the performance of the Group.

The Board, assisted by the Audit Committee, oversees the financial reporting process and the quality of the financial reporting of the Group. Audit Committee reviews and monitors the integrity of the Group's annual and interim financial statements. It also reviews the appropriateness of the Group's accounting policies and the changes to these policies as well as ensures these financial statements comply with accounting standards and regulatory requirements.

The Directors acknowledge their responsibilities for preparing the accounts of the Company. As at 31 December 2019, the Directors were not aware of any material uncertainties relating to events or conditions which might cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going-concern basis.

The responsibilities of the external auditors with respect to financial reporting and auditing are set out in the Independent Auditor's Report attached to this annual report.

Auditors' Remuneration

During the year under review, the remuneration paid/payable to the Company's auditors, Messrs. Ernst & Young, is set out as follows:

Services rendered	**Fees paid/payable HK$'000**
Audit services	**4,037**
Non-audit services*	**261**
Total:	**4,298**

* The non-audit service fees paid/payable to the external auditors were for advice on accounting and taxation matters and for preparation, review and submission of tax returns. The provision of these services by external auditors to the Company and the Group were cost effective and efficient due to their knowledge and understanding of the operations of the Company and the Group.

ACCOUNTABILITY AND AUDIT (Continued)

Risk Management and Internal Controls

The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining sound systems of risk management and internal controls and also reviewing their effectiveness to safeguard interests of shareholders, customers, employees, and the Group's assets. However, such systems are designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure to achieve business objectives of the Group, and can only provide reasonable assurance and not absolute assurance against material misstatement or loss.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes enhancing the systems of risk management and internal controls from time to time in response to the changes to the business environment or regulatory guidelines.

Management assists the Board in the implementation of the Group's policies, procedures and limits within the Board's approved risk appetite by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks. The adequacy and effectiveness of the systems of risk management and internal controls of the Group are annually reviewed by the Board. The review covers all material controls, including financial, operational and compliance controls as well as the process for the identification, evaluation and management of the significant risks faced by the Company and the Group. The Board also reviews the adequacy of resources, employees' qualifications and experience, their training programmes, and budget of the Group's accounting, compliance, risk management, internal audit and financial reporting functions.

Key Risk Management and Internal Control Processes

The Group adopts the risk management framework of Public Bank Group, the parent bank group of the Company, with enhancements taking into account the operating environment and regulatory requirements in Hong Kong and China. The main features of the Group's systems of risk management and internal controls and the key processes that have been established in reviewing the adequacy and effectiveness of the aforesaid systems are stated below.

Group Risk Management Governance and Framework

The Board established a governance structure that is designed to govern the Group's business activities to be:

- consistent with the Group's overall business objectives and risk appetite
- conducted within clearly defined lines of responsibility, authority limits, and accountability aligned to risk management and control responsibilities
- subjected to adequate risk management and internal controls

Corporate Governance Report

ACCOUNTABILITY AND AUDIT (Continued)

Key Risk Management and Internal Control Processes (Continued)

Group Risk Management Governance and Framework (Continued)

Risk Management Committees

The RMCs of Public Bank (Hong Kong) and Public Finance are delegated by the respective Boards to oversee and manage all identified risks on an ongoing basis. They have also taken up the risk management functions and duties of the Group. Each of the RMCs is assisted by the specialised risk/compliance committees namely Assets and Liabilities Management Committee ("ALCO"), Operational Risk Management Committee ("ORMC"), Credit Risk Management Committee ("CRMC"), Anti-money Laundering and Counter-terrorist Financing (AML) and Compliance Committee, and Internal Capital Adequacy Assessment Process ("ICAAP") and Compliance Working Group or equivalent committees with similar functions under Public Bank (Hong Kong) and Public Finance. The detailed functions of the specialised committees are set out in the "Other Committees Established in the Group" section of the Corporate Governance Report of this annual report.

RMCs of Public Bank (Hong Kong) and Public Finance currently comprise three Independent Non-Executive Directors and two Non-Executive Directors, and each is chaired by an Independent Non-Executive Director.

The major roles and functions of the RMCs are as follows:

1. To oversee the overall management of all risks covering market risk management, liquidity risk management, credit risk management, operational risk management, and compliance risk management.

2. To review and approve major risk related policies and major risk tolerance limits which have potential material impact on risk profile and financial position at company-wide level, and to table to the Board for noting subsequently.

3. To review and assess adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.

4. To ensure infrastructure, resources and systems are in place for risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the risk taking activities and is reinforced with an effective compliance function and subject to an independent internal audit review.

ACCOUNTABILITY AND AUDIT (Continued)

Key Risk Management and Internal Control Processes (Continued)

Group Risk Management Governance and Framework (Continued)

Risk Management Committees (Continued)

5. To approve the appointment, resignation or dismissal of the Head of Compliance and Head of Risk Management, and evaluate their performance and remuneration.

6. To coordinate with Audit Committee to understand how the internal audit work plan and compliance work plan are aligned with the risks that have been identified so as to obtain assurance that the identified risks are managed in an integrated manner.

7. To oversee senior management's actions to ensure consistency with the risk strategy and policies approved by the Board including the risk appetite.

The terms of references of the RMCs are available on the website of the Company.

The RMCs meet generally six times a year. Six meetings of each Committee were held during the year. The minutes of RMCs' meetings are tabled to their respective Boards for noting and for action where appropriate. Such minutes are also tabled to the Board of the Company for noting.

During the year, the RMCs have reviewed the Group's risk appetite which defines the amount and type of risks that the Group is able and willing to accept in pursuit of its business objectives. The Group's risk appetite sets out the level of risk tolerance and limits to govern, manage and control the Group's risk-taking business activities. The strategic objectives, business plans, desired risk profile and capital plans are required to be aligned with the risk appetite. The setting, cascading, monitoring and review of the Group's risk appetite are governed by the processes as set out in the Group's Risk Management Policies.

The Group's ICAAP is in place to assess the adequacy of capital to support the risk-taking business activities of the Group. It involves the identification and assessment of risk areas that are applicable to the Group and that adequate capital is set aside to support the aforesaid activities. The Group's risk management policies, which set out the fundamental principles on risk governance, are to drive the development of risk management practices and tools which enable the identification, measurement, controlling and continuous monitoring of all applicable key risks of the Group including the identification of emerging risks.

During the year, the RMCs also performed the work to approve the Stress Testing Programme, Risk Management Plan and Compliance Plan, List of Emerging Risks Identified for Comprehensive Risk Assessment, Key Performance Indicators for Compliance Function and Risk Management Function; review of the Group's risk management policies, Risk Appetite Metrics and Thresholds, Internal Capital Targets, Credit Risk Strategy and risk limit settings.

The respective Risk Management Departments of Public Bank (Hong Kong) and Public Finance provide main support to the RMCs and the specialised risk committees in meeting their responsibilities for managing risks, and are responsible to develop and maintain risk management policies and procedures in respect of market risk, interest rate risk, liquidity risk, credit risk, operational risk, compliance risk and other risks specifically related to ICAAP.

Compliance Departments of Public Bank (Hong Kong) and Public Finance identify key compliance risk areas as guided by the Group's Compliance Framework and conduct ongoing compliance reviews. Compliance reports are submitted to the respective RMCs for review.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT (Continued)

Key Risk Management and Internal Control Processes (Continued)

Group Risk Management Governance and Framework (Continued)

Internal Audit Function

The respective Internal Audit Departments of Public Bank (Hong Kong) and Public Finance check for compliance with statutory/regulatory requirements, internal policies and procedures, and review the work processes/procedures for efficiency and effectiveness. They also assess the operating effectiveness of the risk management and internal control systems during their course of audits. Audits are carried out by Internal Audit Departments on all units and branches, the frequency of which is determined by the level of assessed risks, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plans are reviewed and approved by the respective Audit Committees. The audit findings are submitted to the respective Audit Committees for review.

The Audit Committees of Public Bank (Hong Kong) and Public Finance review internal control issues identified by the respective Internal Audit Departments, the external auditors, regulatory authorities and management, including the remedial actions taken to address and resolve any such issues identified, and evaluate the adequacy and effectiveness of their risk management and internal control systems. They also review the internal control functions with particular emphasis on the scope and frequency of audits and the adequacy of resources.

The Heads of Internal Audit Departments from Public Bank (Hong Kong) and Public Finance attend Audit Committee meetings by invitation. Minutes of each Audit Committee meeting are circulated to all members of Audit Committees for their perusal prior to confirmation of the minutes at the subsequent Audit Committee meeting. Members may request for clarifications or raise comments before the minutes are confirmed. Upon receiving confirmation from the members at the Audit Committee meeting, the minutes will be signed by the Chairman of the meeting as a correct record of the proceedings of the meeting. The minutes of each Audit Committee meeting are also tabled to their respective Boards for noting and for action where appropriate.

The Company has its own Audit Committee and details of its roles and functions, work performed in 2019 and its review of the risk management and internal control systems are set out in "Board Committees" section on pages 25 to 28 of the Corporate Governance Report in this annual report.

Other Key Elements of Risk Management and Internal Controls

The other key processes and committees that have been established for the risk management and internal controls are detailed in "Other Committees Established in the Group" section of the Corporate Governance Report in this annual report.

There are policies and procedures to ensure compliance with internal controls and the relevant laws and regulations set out in operation manuals, guidelines and directives issued by the Group which are updated from time to time.

Policies and procedures are established within the Group to facilitate continuous identification of emerging risk events followed by comprehensive risk assessment to develop appropriate risk responses so that the risks are managed within the Group's risk appetite.

Besides, all employees of the Group are encouraged to report material risk issues or transactions to higher authorities pursuant to the Whistleblowing Policy and Procedure of Public Bank (Hong Kong) and Public Finance. Complaint Officer of Public Bank (Hong Kong) and Complaints Department of Public Finance deal with complaints from stakeholders and third parties. The "Whistleblowing mechanism" is independent of management and is clearly communicated to all employees of the Group.

ACCOUNTABILITY AND AUDIT (Continued)

Key Risk Management and Internal Control Processes (Continued)

Other Key Elements of Risk Management and Internal Controls (Continued)

All employees of the Group are also bound by the Code of Conduct and Inside Information Disclosure Policy to keep inside information in strict confidence and refrain from accepting personal benefits through the power or authority derived from their position. Information Security Guidelines and Corporate Information Security Management Policy are in place to restrict the unauthorised transfer of confidential information. Regular trainings/reminders are provided/sent to the employees.

The Group's risk management objectives and policies are detailed in note 40 to the financial statements in this annual report.

Annual Review of System Effectiveness

The Company has conducted a group-wide review of its risk management and internal control systems for the assessment on (i) risk management framework, (ii) control environment and activities, (iii) quality of information and effectiveness of communications, and (iv) monitoring process for the period from 1 January 2019 to 31 December 2019. No material internal control defect was noted in the review.

The review results as endorsed by the Audit Committee have been tabled to the Board of the Company for review in January 2020. In addition, the Board has received a Statement of Assurance from the Executive Director/Chief Executive and the Chief Financial Officer of the Group that the Group's risk management and internal control systems are operating adequately and effectively in all material aspects for the period from 1 January 2019 to 31 December 2019. The Board is of the view that the systems of risk management and internal controls in place for the year under review and up to the date of issuance of the annual report are sound and sufficient to safeguard the interests of various stakeholders. The resources, qualifications and experience of staff of the Group's accounting, compliance, risk management, internal audit and other key dedicated functions, and their training programmes and budget are adequate.

Other Committees Established in the Group

The key processes that have been established in reviewing the adequacy and integrity of the systems of risk management and internal controls in the Group include the following:

- Board Executive Committees under Public Bank (Hong Kong) and Public Finance consist of Executive Directors and Non-Executive Directors and are responsible for the management of the businesses of Public Bank (Hong Kong) and Public Finance in all aspects and the implementation of strategic business plans and policies approved and formulated by the respective Boards.

- Management Committees are established by the respective Boards of Public Bank (Hong Kong) and Public Finance to ensure the effectiveness of the Group's daily operations and that the Group's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

- Credit Committees under Public Bank (Hong Kong) and Public Finance are responsible for making decision on loan applications for all types of loan facilities within their discretionary powers, assisting the respective Boards in formulating policy guidelines for the banking and lending businesses of Public Bank (Hong Kong) and Public Finance, and recommending applications for loan facilities exceeding the discretionary powers of the Credit Committees to the respective Boards for approval.

- CRMC under Public Bank (Hong Kong) reviews and assesses independently the credit risk profile and quality of assets, conducts stress-testing on major risks and post-mortem analysis on impaired assets, sets credit concentration risk limits of Public Bank (Hong Kong) and implements credit risk management policies approved by the Board of Public Bank (Hong Kong).

Corporate Governance Report

ACCOUNTABILITY AND AUDIT (Continued)

Other Committees Established in the Group (Continued)

- ALCOs under Public Bank (Hong Kong) and Public Finance review and assess the market risk, liquidity risk and interest rate risk of Public Bank (Hong Kong) and Public Finance, set the objectives for the asset and liability management function and implement the risk management policies approved by the respective Boards of Public Bank (Hong Kong) and Public Finance.

- ORMCs under Public Bank (Hong Kong) and Public Finance review operational risk profile, assess impact of operational loss events, set operational risk limits and implement operational risk management policies approved by the respective Boards of Public Bank (Hong Kong) and Public Finance.

- Finance Committees under Public Bank (Hong Kong) and Public Finance assist the respective Boards in the financial planning, capital management and budgeting process of the business of Public Bank (Hong Kong) and Public Finance and the review of the business performance, statutory and half year accounts.

- Anti-money Laundering and Counter-terrorist Financing (AML) and Compliance Committee and Compliance Department of Public Bank (Hong Kong), and Anti-money Laundering Committee, Compliance Working Group and Compliance Department of Public Finance are established to ensure the guidelines on prevention of money laundering are reviewed, updated and implemented; to handle all suspected money laundering cases as referred; to review the relevant policies and guidelines issued from time to time by the HKMA and other regulatory authorities; to assess the impact of the relevant regulatory requirements on Public Bank (Hong Kong) and Public Finance; and to ensure that the relevant business units and/or departments comply with the relevant regulatory requirements and internal policy guidelines of business units and departments.

- Nomination and Remuneration Committees (formerly known as Nomination Committee and Remuneration Committee which were re-organised as one committee with same Chairman and same members on 1 January 2020) of Public Bank (Hong Kong) and Public Finance are established to review and make recommendations to the Board the overall remuneration policy of the Executive Directors, Chief Executive, senior management and key personnel and to establish a formal and transparent procedure for developing policy on such remuneration of Public Bank (Hong Kong) and Public Finance and their subsidiaries; to review and make recommendations to the Board the remuneration policies applicable to the employees; to review the structure, size and composition of the Board and make recommendations of any proposed changes to the Board to complement their corporate strategy; to make recommendations on the appointment, nomination policy, succession planning and any related matters for Directors, Chief Executive, Alternate Chief Executive(s) and senior management.

- Business Strategy Steering Committees under Public Bank (Hong Kong) and Public Finance are responsible for establishing effective business strategies to meet corporate goals and objectives; and to formulate strategic business plans to achieve growth and return, and competitive edge in the financial industry.

- Business Continuity Committee of Public Bank (Hong Kong) is responsible for managing the overall formulation, implementation and maintenance of the Business Resumption Continuity Plan (“BRCP”) of the bank. It plans for BRCP testing at least once a year and ensures the necessary measures for BRCP are taken for meeting the regulatory and business requirements.

- Human Resources Committees under Public Bank (Hong Kong) and Public Finance assist the respective Boards in formulating and implementing human resources policies including staff recruitment, promotion, career development, performance appraisal and remuneration of all staff, and proposing the succession plan for senior management positions to the Nomination and Remuneration Committee yearly.

ACCOUNTABILITY AND AUDIT (Continued)

Other Committees Established in the Group (Continued)

- Information Technology (I.T.) Steering Committee under Public Bank (Hong Kong) and Information Technology Committee under Public Finance are responsible for establishing objectives, policies and strategies for the computerisation of the Group, recommending to the respective Boards on major acquisitions of computer hardware and software, and monitoring the progress of implementation of all information technology related projects.

- Bank Culture Committees under Public Bank (Hong Kong) and Public Finance are established to develop and promote a sound corporate culture and behavioural standards that promote prudent risk-taking and fair treatment of customers within Public Bank (Hong Kong), Public Finance and their subsidiaries.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of good communications with its shareholders and investors. The Shareholders' Communication Policy setting out the principles of the Company in relation to shareholders' communications, with the objectives of ensuring a transparent and timely communication with shareholders via various means, is available on the website of the Company.

The Company's AGM is a valuable forum for the Board to communicate directly with the shareholders and to answer questions shareholders may raise. Separate resolutions are proposed at general meetings for each substantial issue, including the re-election and election of individual directors. The detailed procedures of conducting a poll are explained to shareholders at the commencement of the AGM, to ensure that shareholders are familiar with such procedures.

The Company's last AGM was held on Friday, 22 March 2019 at 11:00 a.m. at Kowloon Room, Mezzanine Floor, Kowloon Shangri-La, Hong Kong, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong. All the resolutions proposed at that meeting were approved by shareholders of the Company by poll. Details of the poll results are available under the "Investor Relations" section of the Company's website at www.publicfinancial.com.hk and the website of the Stock Exchange at www.hkexnews.hk. All Directors, except Tan Sri Dato' Sri Dr. Teh Hong Piow, attended the AGM held on 22 March 2019.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its annual and interim results in a timely manner within 25 days after the end of the relevant periods in 2018 and 2019, which were well before the time limits as laid down in the Listing Rules. The notice of 2019 annual general meeting has also been sent to the shareholders at least 20 clear business days before the meeting.

The management personnel responsible for investor relations held regular meetings with equity research analysts, fund managers and institutional shareholders and investors. The market capitalisation of the Company as at 31 December 2019, the last trading day in 2019, was HK$3,491,378,025 (issued share capital: 1,097,917,618 shares at closing market price: HK$3.18 per share). The public float is around 26.8%.

The 2020 AGM will be held at Kowloon Room, Mezzanine Floor, Kowloon Shangri-La, Hong Kong, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Friday, 20 March 2020 at 11:00 a.m.

Corporate Governance Report

CONSTITUTIONAL DOCUMENTS

There was no change to the Company's Memorandum of Association and Bye-laws during the financial year 2019.

DIVIDEND POLICY

Policy on Payment of Dividend of the Company is in place setting out the factors in determination of dividend payment of the Company, the Company's long-term earning capacity and expected cash inflow and outflow, the frequency and form of dividend payments. The policy shall be reviewed periodically and submitted to the Board for approval if amendments are required.

SHAREHOLDERS' RIGHTS

Convening of Special General Meetings on Requisition by Shareholders

Shareholders shall have the right to request the Board to convene a special general meeting ("SGM") of the Company. Shareholders holding in aggregate of not less than one-tenth (10%) of the paid up capital of the Company may send a written request to the Board of the Company to request for a SGM.

The written requisition, duly signed by the shareholders concerned, must state the purposes of the meeting and must be deposited at the registered office of the Company.

The Company would take appropriate actions and make necessary arrangements, and the shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under section 74 of the Companies Act 1981 of Bermuda (the "Bermuda Companies Act") once a valid requisition is received.

Procedures for Making Proposals at General Meetings by Shareholders

The following shareholders are entitled to put forward a proposal (which may properly be put to the meeting) for consideration at a general meeting of the Company:

(a) any number of members representing not less than one-twentieth (5%) of the total voting rights of the Company on the date of the requisition; or

(b) not less than 100 members holding shares in the Company.

The requisition specifying the proposal, duly signed by the shareholders concerned, together with a statement of not more than 1,000 words with respect to the matter referred to in the proposal must be deposited at the registered office of the Company. The Company would take appropriate actions and make necessary arrangements, and the shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under sections 79 and 80 of the Bermuda Companies Act once valid documents are received.

SHAREHOLDERS' RIGHTS (Continued)

Procedures for Director's Nomination and Election by Shareholders

If a shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, the shareholder should lodge at the principal place of business of the Company at 2/F, Public Bank Centre, 120 Des Voeux Road Central, Central, Hong Kong, a written notice signed by (i) such shareholder (other than the proposed person) duly qualified to attend and vote at the meeting of his/her intention to propose such person for election; and (ii) the proposed person indicating his/her willingness to be elected. The said notice must include the personal information of the proposed person as required by Rule 13.51(2) of the Listing Rules and consent of publication of his/her personal data.

The period during which the aforesaid notice may be given shall be at least seven days (or such other period as determined and announced by the Board). Such period will commence on the day after the despatch of the notice of general meeting for which such notice is given and end no later than seven days prior to the date of such general meeting. The Company would take appropriate actions and make necessary arrangements, and the shareholder concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under bye-law 116 of the Company's Bye-laws once valid notice is received.

The Procedures for Shareholders to Propose a Person for Election as a Director of the Company is available on the website of the Company.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

Public Financial Holdings Limited
2/F, Public Bank Centre
120 Des Voeux Road Central
Central, Hong Kong
Telephone : (852) 2541 9222
Fax : (852) 2545 5665
Email : investor@publicbank.com.hk

Shareholders may also make enquiries to the Board at the general meetings of the Company.

Brief Biography of Directors

Tan Sri Dato' Sri Dr. Teh Hong Piow

Tan Sri Dato' Sri Dr. Teh Hong Piow, aged 89, is the Founder, Chairman Emeritus, Director and Adviser, and a substantial shareholder of Public Bank, a commercial bank listed on the Malaysian stock exchange, and the holding company of the Company. He retired as Chairman of Public Bank on 31 December 2018. He was conferred the position of Chairman Emeritus and Adviser of Public Bank with effect from 1 January 2019. He has 70 years of experience in the banking and finance industry. He was appointed a Non-Executive Director and the Chairman of the Company in September 1991. He is also the Chairman of the Boards of Directors and Board Executive Committees of Public Bank (Hong Kong) and Public Finance. He also holds directorships in several other companies in the Public Bank Group and is the Chairman of LPI Capital Berhad which is a listed public company in Malaysia.

In recognition of his contributions to society and the economy, he was conferred the Doctor of Laws (Honorary) from University of Malaya in 1989.

Tan Sri Dato' Sri Dr. Teh Hong Piow had served in various capacities in public service bodies in Malaysia; he was a member of the Malaysian Business Council from 1991 to 1993; a member of the National Trust Fund from 1988 to 2001; a founder member of the Advisory Business Council since 2003; and is a member of the IPRM Accreditation Privy Council. He is an Emeritus Fellow of the Malaysian Institute of Management and is a Fellow of the Asian Institute of Chartered Bankers; the Chartered Institute of Bankers, United Kingdom; the Institute of Administrative Management, United Kingdom; and the Governance Institute of Australia.

Mr. Lai Wan

Mr. Lai Wan, aged 76, has 46 years of experience in the banking and finance related industries. He was appointed an Independent Non-Executive Director of the Company in December 2013, and became the Independent Non-Executive Co-Chairman of the Company in July 2015. He is a member of the Audit Committee, and the Chairman of Nomination and Remuneration Committee. Mr. Lai is currently the Independent Non-Executive Chairman of Public Bank, the Independent Non-Executive Co-Chairman of Public Bank (Hong Kong) and an Independent Non-Executive Director of Public Finance. Mr. Lai is also the Chairman or a member of various Board Committees of Public Bank (Hong Kong) and Public Finance. He holds directorship in another company in the Public Bank Group.

Mr. Lai graduated with a Bachelor of Arts (Honours) degree in Economics from the University of Malaya and is an Associate of the Asian Institute of Chartered Bankers. He had served the Central Bank of Malaysia for 20 years up to 1985 and had working experience in three finance companies from 1985 to 1994 where he had held senior management positions. In 1994, he joined The Pacific Bank Berhad, a listed public company in Malaysia, as General Manager, and was appointed as Chief Executive Officer in 1997. He also served as the Chief Executive Officer of PacificMas Berhad (formerly known as The Pacific Bank Berhad and was renamed after disposal of its banking business in 2000) until his retirement in 2003.

Mr. Tan Yoke Kong

Mr. Tan Yoke Kong, aged 67, has 38 years of experience in the banking and finance industry. He was appointed an Executive Director of the Company in February 1992 and is a Joint-secretaries of the Company. He is currently the Chief Executive and Executive Director and a member of Board Executive Committee of Public Bank (Hong Kong). He is also a director of certain subsidiaries of the Company.

Prior to his transfer to the current appointment in Public Bank (Hong Kong) in year 2006, Mr. Tan was the Chief Executive of Public Finance, and had served as the Vice Chairman of The Hong Kong Association of Restricted Licence Banks and Deposit-Taking Companies and as a member of the Deposit-taking Companies Advisory Committee for several years. Mr. Tan is a Fellow of the Association of Chartered Certified Accountants, United Kingdom, a Fellow of The Chartered Governance Institute (CGI) (formerly known as The Institute of Chartered Secretaries and Administrators (ICSA)), United Kingdom and a Fellow of The Hong Kong Institute of Chartered Secretaries.

Mr. Chong Yam Kiang

Mr. Chong Yam Kiang, aged 69, has 50 years of experience in the banking and finance industry. He was appointed a Non-Executive Director of the Company in January 2009. Mr. Chong was re-designated from Executive Director to Non-Executive Director of Public Bank (Hong Kong), and appointed as the Executive Director and Chief Executive of Public Finance on 1 January 2020. He is a member of Board Executive Committees of Public Bank (Hong Kong) and Public Finance. He is also a director of certain subsidiaries of the Company.

Brief Biography of Directors

Mr. Quah Poh Keat

Mr. Quah Poh Keat, aged 67, has 35 years of experience in auditing, tax and insolvency practices and had worked in Malaysia and United Kingdom. He was appointed a Non-Executive Director of the Company in July 2008, re-designated as an Independent Non-Executive Director on 13 January 2009 and re-designated as a Non-Executive Director on 3 October 2013. He is currently a member of the Audit Committee and Nomination and Remuneration Committee. Mr. Quah is also a Non-Executive Director of Public Bank (Hong Kong) and Public Finance, and a member of various Board Committees of Public Bank (Hong Kong) and Public Finance.

Mr. Quah is also an Independent Non-Executive Director of Kuala Lumpur Kepong Berhad, Paramount Corporation Berhad and Malayan Flour Mills Berhad, and a Non-Independent Non-Executive Director of LPI Capital Berhad, which are listed public companies in Malaysia.

Mr. Quah is a Fellow of the Chartered Tax Institute of Malaysia and the Association of Chartered Certified Accountants. He is also a member of the Malaysian Institute of Accountants, the Malaysian Institute of Certified Public Accountants and the Chartered Institute of Management Accountants. He was a partner of KPMG Malaysia since October 1982 and appointed Senior Partner (also known as Managing Partner in other practices) in October 2000 until end of September 2007. He retired from the firm in December 2007. He was the Deputy Chief Executive Officer of Public Bank from October 2013 to December 2015.

Dato' Chang Kat Kiam

Dato' Chang Kat Kiam, aged 65, has 45 years of experience in the banking and finance industry. He was appointed a Non-Executive Director of the Company in March 2004. He is also a Non-Executive Director and a member of various Board Committees of each of Public Bank (Hong Kong) and Public Finance.

Dato' Chang is currently the Deputy Chief Executive Officer of Public Bank. He also holds directorships in several other companies in the Public Bank Group. He holds a Master's degree in Business Administration.

Mr. Lee Chin Guan

Mr. Lee Chin Guan, aged 61, has 25 years of experience in legal matters, with 13 years of experience in legal practice, principally in commercial and corporate matters. He was appointed an Independent Non-Executive Director of the Company in September 2004 and is a member of the Audit Committee and Nomination and Remuneration Committee. He is also a Non-Independent Non-Executive Director of Public Bank, a listed public company in Malaysia, and an Independent Non-Executive Director and the Chairman or a member of various Board Committees of each of Public Bank (Hong Kong) and Public Finance. Mr. Lee is also an Independent Non-Executive Director of LPI Capital Berhad, a listed public company in Malaysia. He holds directorship in another company in the Public Bank Group.

Mr. Lee qualified as a Barrister-at-Law from the Middle Temple, United Kingdom in 1982. He also holds a Bachelor's Degree in Science (Hons) from the University of Manchester Institute of Science and Technology, England and Degrees in Law from Cambridge University, Oxford University and Chicago-Kent College of Law.

Mr. Tang Wing Chew

Mr. Tang Wing Chew, aged 75, has 53 years of experience in the financial services industry, ranging from research, management and project studies, training, mergers and integration, and stewardship of financial institutions. He was appointed an Independent Non-Executive Director of the Company in December 2013 and was appointed the Chairman of the Audit Committee in May 2015. He is a member of Nomination and Remuneration Committee. Mr. Tang has been appointed the Independent Non-Executive Co-Chairman of Public Finance since July 2015 and is currently an Independent Non-Executive Director of Public Bank and Public Bank (Hong Kong). He is the Chairman or a member of various Board Committees of Public Bank (Hong Kong) and Public Finance. He also holds directorship in another company in the Public Bank Group.

Mr. Tang graduated with a Bachelor of Arts (Honours) degree from the University of Malaya. He had served the Central Bank of Malaysia for 18 years and had working experience in two finance companies, where he was the Chief Executive Officer and General Manager (Operations). Mr. Tang had also served as an Executive Adviser and the Chief Executive Officer of an insurance company.

Our Corporate Family
Corporate Events & Recreational Activities

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1. The Board of Directors at the 28th Annual General Meeting of Public Financial Holdings Limited held on 22 March 2019.
2. Senior management of Public Bank (Hong Kong) at Business Forum 2019.
3. Group photo of Heads of Departments/Business Units and Branch Managers with senior management of Public Bank (Hong Kong).
4. Staff singing Public Bank's corporate song at the Business Forum 2019.
5. Senior management toasting on stage at the Group's Annual Dinner 2019.
6. Department heads and senior management of Public Bank (Hong Kong) at the Group's Annual Dinner 2019.
7. The Organising Committee posing with the professional artist at the Group's Annual Dinner 2019.

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8. Dancers performing “The Greatest Showman” at the Group’s Annual Dinner 2019.
9. Company trip at Lamma Island organised by Sports and Recreation Club of Public Bank Group, Hong Kong.
10. “PB We Care Team” volunteering at Crossroads Foundation for refurbishing and re-distributing useful materials to the needy.
11. “PB We Care Team” visiting the singleton elderly during the Dragon Boat Festival.
12. Staff supporting Hong Kong Cancer Fund’s Dress Pink Day.
13. “PB We Care Team” visiting the singleton elderly during the Mid-Autumn Festival.
14. “PB We Care Team” being awarded certificates of appreciation for their contribution to the community.

Our Corporate Family
Marketing & Promotions


大眾財務
個人化息率智慳錢私人貸款
特快清卡數
夢想成真智方便
每月平息低至0.18%*
每HK$10,000貸款，日息低至HK$0.6^
貸款熱線
2848 1888
網上申請
www.publicfinance.hk/loan
大眾財務
大眾首選
節省利息高達95%
大眾財務有限公司
PUBLIC FINANCE LIMITED
借定唔借？還得到先好借！


大眾財務
「0」息私人貸款
RELAX!
特快批核 卡數唔再煩
只需付行政費每年HK$500*
0%
貸款熱線
2848 1888
網上申請
www.publicfinance.hk/loan
大眾財務
大眾首選
大眾財務有限公司
PUBLIC FINANCE LIMITED
借定唔借？還得到先好借！


大眾財務送您新年大利是
轉戶大眾過肥年
喜迎金豬
過豐年
高達HK$1,000新年大利是^
貸款額高達HK$80萬*
高達HK$6,000即時現金獎賞#
每月平息低至0.16%*
貸款熱線
2848 1888
網上申請
www.publicfinance.hk/loan
大眾財務
大眾首選
大眾財務有限公司
PUBLIC FINANCE LIMITED
借定唔借？還得到先好借！


大眾財務
個人化低息「稅月」
私人貸款
交稅清數
兼享優惠
成功批核及提取貸款即享
高達HK$2,000超市購物禮券
還款期長達48個月
每月平息低至0.16%*
貸款額高達月薪15倍^
手續費豁免
貸款熱線
2848 1888
網上申請
www.publicfinance.hk/loan
大眾財務
大眾首選
大眾財務有限公司
PUBLIC FINANCE LIMITED
借定唔借？還得到先好借！

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company is an investment and property holding company. The principal activities of its subsidiaries during the year were the provision of retail and commercial banking and lending services, stockbroking, the letting of investment properties, the provision of financing to purchasers of taxis and public light buses, the trading of taxi cabs and taxi licences and the leasing of taxis.

Details of the principal activities of the Company's subsidiaries are set out in note 1 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 and the Group's financial position as at that date are set out in the financial statements on pages 62 to 160.

The first interim dividend of HK$0.05 (2018: HK$0.05) per ordinary share was paid on 7 August 2019. The second interim dividend of HK$0.15 (2018: HK$0.17) per ordinary share was declared on 31 December 2019 and will be payable on 21 February 2020 to shareholders of the Company whose names appear on the register of members on 31 January 2020. The Directors do not recommend the payment of a final dividend for the year (2018: Nil).

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 9.

BUSINESS REVIEW

Overview

The Sino-US trade disputes/tensions, coupled with domestic social unrests, contributed to volatile/uncertain economic conditions and weakened economic performance in Hong Kong in the year under review. The domestic credit demand and profitability of financial institutions in banking sector of Hong Kong were also affected. Despite the difficulties and uncertainties above, the Group will continue to pursue long-term business growth prudently with sustainable profitability growth.

The Group provides a broad range of commercial and retail banking, stockbroking and other premium quality services to customers. With a combined network of 84 branches, a synergy of cross-selling of products and optimisation of support operations have been achieved for the Group. The details of branches and principal business activities of core operating subsidiaries are shown in "Branch Network" section and "Management Discussion and Analysis" section of this annual report respectively.

Key financial and business performance indicators

The key financial and business performance indicators comprise loans and deposits growth; profitability growth; return on equity; cost to income ratio; impaired loans to total loans ratio; gearing ratio and capital adequacy levels. Details of the Group's loans and deposits growth and profitability growth are shown in "Management Discussion and Analysis" section of this annual report. Details of other key performance indicators are discussed as below.

The Group's return on equity, based on profit after tax to average equity, stood at a healthy level of 5.93% in the year under review, mainly due to the sustainability of operating income and effective cost control. The Group will continue to diversify income streams whilst seeking satisfactory yields on loans and other interest-bearing assets and acquiring customer deposits at reasonable costs to maintain the sustainability of net interest margin and profitability from time to time.

BUSINESS REVIEW (Continued)

Key financial and business performance indicators (Continued)

The Group's cost to income ratio was maintained at a satisfactory level of 55.16%, and was affected by increase of information system costs and compliance costs to fulfill or address increasing regulatory requirements. The Group aims to contain operating expenses but will continue to conserve resources to strengthen security controls against risks of potential cyber threats. The Group continues to grow loans at reasonable yields cautiously, and to diversify income streams into fee-based businesses in stockbroking and insurance business operations.

The Group's impaired loans to total loans ratio stood at a satisfactory level of 0.67% as at 31 December 2019 signaling healthiness of loan asset quality at group level. The Group continues to adopt prudent underwriting standards to ensure healthy level of impaired loans and to take prompt actions to pursue loans recovery with regard to problem credits.

Based on the level of bank borrowings as compared to the equity of the Group, the Group's gearing ratio was maintained at a healthy level of 0.19 times as at 31 December 2019. The consolidated tier 1 capital ratio and total capital ratio of Public Bank (Hong Kong) Group, inclusive of Public Bank (Hong Kong) and Public Finance, stood high at 19.7% and 20.9% respectively as at 31 December 2019 with implications for adequate capital buffer to fulfill Basel III and other statutory/supervisory requirements. The Group continues to safeguard its capital adequacy position, manage key risks cautiously and set prudent yet flexible business development strategies to strike a balance between business growth and prudent risk management.

Compliance with laws and regulations

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance that might lead to warnings/reprimands from regulators and even the loss of operating licences. Accordingly, the Group has been allocating system and staff resources to ensure ongoing compliance with the rules and regulations and to maintain cordial working relationships with the regulators through effective communications. During the year under review, the Group has complied, to the best of our knowledge, with the Companies Ordinance, the Banking Ordinance, the Securities and Futures Ordinance ("SFO"), Securities and Futures (Financial Resources) Rules, Banking (Disclosure) Rules, Securities and Futures (Client Securities) Rules, Securities and Futures (Client Money) Rules, the Listing Rules, the Stock Exchange's Trading Rules and Clear House Rules, Code of Conduct for Persons Licensed by or Registered with the SFC, Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance, China Banking and Insurance Regulatory Commission rules, and other relevant rules and regulations.

Principal risks and uncertainties

The Group's principal business activities comprise retail and commercial banking services, which are exposed to a variety of key risks including credit risk, interest rate risk, liquidity risk, operational risk and market risk. The Group's long term profitability and business growth are affected by the volatility and uncertainty of macro-economic conditions such as geopolitical risks, unemployment rate, real gross domestic product growth, asset price levels and credit demand. The Group will stay vigilant against the impacts from key risks, in particular, the impact of interest rate risk of escalating funding costs due to increases in retail deposit rate, and credit risk due to rising levels of corporate leverage and household debt servicing burdens. The potential declines of prices of eligible collaterals also partly increase credit risk to the Group, and the Group will continue to adopt more stringent underwriting standard for the minimisation of the above risks. Details of the aforesaid key risks and risk mitigation measures are elaborated in note 40 "Risk Management Objectives and Policies" to the financial statements of this annual report.

Report of the Directors

BUSINESS REVIEW (Continued)

Relationships with key stakeholders

The Group's success always depends on the support from key stakeholders which comprise employees, customers, peer banks, service vendors, regulators and shareholders.

Employees

Employees are regarded as the most important and precious assets of the Group. The objective of the Group's human resources management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

Customers

The Group's principal customers are from loans transactions, deposit-takings, stockbroking and insurance commission-based businesses. The Group has the mission to provide excellent customer service in retail and commercial banking and other businesses whilst maintaining long term profitability, business and asset growth. Various means have been established to strengthen the communications between the customers and the Group in the provision of excellent customer service towards market penetration and expansion.

Peer banks

The Group aims to maintain market presence in Hong Kong and Mainland China by frequent and routine bank placements and inter-bank borrowings, and issuance of certificates of deposit to peer banks. Treasury Department of the Group will continue to ensure adequate market access for readiness of soliciting funding from financial institutions and of conducting foreign exchange transactions in market.

Service vendors

Sound relationships with key service vendors of the Group are important in supply chain, premises management and meeting business challenges and regulatory requirements, which can derive cost effectiveness and foster long-term business benefits. The key service vendors comprise system and equipment vendors, external consultants which provide professional services, suppliers of office goods/merchandise and other business partners which provide value-added services to the Group.

Regulators

The Group operates in financial sector which is regulated by the HKMA, the SFC, China Banking and Insurance Regulatory Commission, and other relevant authorities. We make it a top priority to stay up to date and ensure compliance with new rules and regulations.

Shareholders

One of the corporate goals of the Group is to enhance corporate value to shareholders. The Group is poised to foster business developments for achieving the sustainability of earnings growth and rewarding shareholders by stable dividend payouts taking into account capital adequacy levels, liquidity positions and future business expansion needs of the Group.

BUSINESS REVIEW (Continued)

Environmental policies and performance

The Group has implemented various environmental protection measures on a continuous basis to minimise the operational impact on the environment and natural resources.

Further discussions on the Group's environmental policies/performance and our relationship with key stakeholders are covered by a separate ESG Report which will be available at the Group's website under the "Corporate Social Responsibility" section and the website of the Stock Exchange on or before end-April 2020.

Future business developments

The intensified competition for banking business services, potential rise in funding costs of customer deposits and bank borrowings, and increase in demand for compliance related resources and rising system related costs in meeting the increased regulatory and supervisory requirements are expected to have adverse impact on the earnings growth of banks and financial institutions in Hong Kong. Despite the foregoing, the Group will continue to seek sustainable business expansion and market penetration, and to pursue profitability growth by diversification of income streams, improvement of net interest margin and enhancement of operating cost efficiency and effective reduction of bad debts. The Group will also adopt prudent capital management and liquidity risk management to preserve adequate buffer to meet the challenges ahead.

INVESTMENT PROPERTIES, PROPERTY AND EQUIPMENT AND LAND HELD UNDER FINANCE LEASES

Details of movements in the investment properties, property and equipment and land held under finance leases of the Group are set out in notes 22, 23, and 24 to the financial statements, respectively.

SHARE CAPITAL

There was no movement in the Company's issued share capital during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in notes 34 and 41(b) to the financial statements, respectively, and the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

The Company's contributed surplus is distributable to shareholders in accordance with the Bermuda Companies Act. As at 31 December 2019, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK$3,728,045,000 (inclusive of the Company's contributed surplus) are set out in note 41(b) to the financial statements as computed in accordance with generally accepted accounting principles of Hong Kong. In addition, the Company's share premium account in the amount of approximately HK$4,013,344,000 may be distributed in the form of fully paid bonus shares.

Report of the Directors

MAJOR CUSTOMERS

During the year, the five largest customers of the Group accounted for less than 30% of the total interest income and other operating income of the Group.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:

Non-Executive Directors:

Tan Sri Dato' Sri Dr. Teh Hong Piow, Chairman
Quah Poh Keat
Dato' Chang Kat Kiam
Chong Yam Kiang

Independent Non-Executive Directors:

Lai Wan, Co-Chairman
Lee Chin Guan
Tang Wing Chew

Executive Directors:

Tan Yoke Kong
Lee Huat Oon (Resigned on 1 January 2020)

In accordance with bye-law 112(A) and (B) of the Company's Bye-laws, Mr. Lee Chin Guan, Mr. Quah Poh Keat and Mr. Chong Yam Kiang shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM.

REMUNERATION POLICY AND DIRECTORS' REMUNERATION

The Remuneration Policy of the Group is established and implemented to encourage employee behaviour that supports the Group's risk tolerance, risk management framework and long-term financial soundness. It is in line with the objectives, business strategies and long-term goals of the Group and structured in a way that will not encourage excessive risk-taking by employees but allows the Group to attract and retain employees with relevant skills, knowledge and expertise to discharge their specific functions.

The basis of determining the remuneration payable to the Directors is set out in the Corporate Governance Report on pages 28 to 29 of the annual report. Details of Directors' remuneration in the Group are set out in note 12 to the financial statements.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

MANAGEMENT CONTRACTS

Save for employment contracts, no other contracts relating to the management and/or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except as detailed in notes 29 and 37 to the financial statements, there has been no transaction, arrangement or contract of significance in relation to the Company's business to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company or an entity connected with the Director is or was materially interested, either directly or indirectly, subsisted during or at the end of the year.

PERMITTED INDEMNITY PROVISION

Pursuant to bye-law 170(A) of the Company's Bye-laws and subject to the provisions of the statutes, every Director or other officer of the Company shall be indemnified out of the assets of the Company against all liability incurred by him as such Directors or officers of the Company in or about the execution or holding of his office or otherwise in relation thereto, and no Director or other officer shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto, provided that this bye-law shall only have effect in so far as its provisions are not avoided by the Bermuda Companies Act. The liability insurance of the Directors and officers for the Company was/is in force during the year and as at the date on which this Directors' Report is approved.

LOAN AGREEMENT WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

In January 2018, the Company entered into a facility agreement (the "Facility Agreement") with a total of eight financial institutions as the original lenders, Mizuho Bank, Ltd. as the mandated lead arranger and bookrunner and Mizuho Bank, Ltd., Hong Kong Branch as the agent (the "Agent") for a term loan facility in an aggregate amount of up to HK$1,100,000,000 (the "Facility"). The Facility replaced the facility agreement dated 22 August 2014 relating to a HK$1,100,000,000 term loan facility made available to the Company.

The final maturity date of the Facility shall be 48 months after the date of first utilisation of the Facility.

The Facility Agreement provides, among other things, that it is an event of default if Public Bank, the controlling shareholder (currently holding approximately 73.2% interest) of the Company, does not or ceases to beneficially own more than 50% of the issued share capital of, and ownership interests in, the Company free from any security or Public Bank does not or ceases to exercise management control over the Company.

If an event of default occurs, the Agent may, and shall if so directed by the Majority Lenders (as defined in the Facility Agreement), cancel the Facility immediately and demand immediate repayment of all or part of the loans made to the Company together with accrued interest.

The circumstances giving rise to the obligation under Rule 13.18 of the Listing Rules continue to exist.

The aggregate level of facilities (excluding facilities arranged solely for the purpose of the contingency funding plan) entered into with the Company and its subsidiaries, which may be affected by such breach and required to be disclosed under Rule 13.18 of the Listing Rules, amounts to HK$1,100,000,000.

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the Directors' interests and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules were as follows:

Long positions in ordinary shares of the Company and associated corporations

		Number of ordinary shares					
Interests in	Name of Directors	Directly beneficially owned	Through spouse or minor children	Through controlled corporations	Other interests	Total	Percentage of interests in the issued share capital %
1. The Company	Tan Sri Dato' Sri Dr. Teh Hong Piow	–	–	804,017,920	–	804,017,920	73.2312
	Tan Yoke Kong	210,000	–	–	*330,000	540,000	0.0492
	Chong Yam Kiang	20,000	–	–	–	20,000	0.0018
	Lee Huat Oon	20,000	–	–	–	20,000	0.0018
	Dato' Chang Kat Kiam	300,000	–	–	–	300,000	0.0273
2. Public Bank, the ultimate holding company	Tan Sri Dato' Sri Dr. Teh Hong Piow	24,711,282	–	884,194,971	–	908,906,253	23.4125
	Tan Yoke Kong	44,700	–	–	–	44,700	0.0012
	Chong Yam Kiang	18,840	–	–	–	18,840	0.0005
	Lee Huat Oon	63,142	–	–	–	63,142	0.0016
	Dato' Chang Kat Kiam	125,636	–	–	–	125,636	0.0032
	Lee Chin Guan	200,030	–	–	–	200,030	0.0052
	Lai Wan	–	18,654	–	–	18,654	0.0005
3. Campu Lonpac Insurance Plc, a fellow subsidiary	Tan Sri Dato' Sri Dr. Teh Hong Piow	–	–	3,850,000	–	3,850,000	55.0000

* Jointly held with another person

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

Long positions in ordinary shares of the Company and associated corporations (Continued)

Tan Sri Dato' Sri Dr. Teh Hong Piow, by virtue of his direct and indirect interests of 908,906,253 shares in Public Bank, is deemed to be interested in the shares of the Company and its associated corporations as disclosed above, to the extent that Public Bank has interests.

Save as disclosed above, none of the Directors had registered an interest or a short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code at the end of the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in the heading "Directors' interests and short positions in shares and underlying shares" above, at no time during the year or at the end of the year has been/was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Company's Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

No equity-linked agreement that will or may result in the Company issuing shares or that requires the Company to enter into any agreements that will or may result in the Company issuing shares was entered into by the Company during the year or subsisted at the end of the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the register of interests and short positions in the shares and underlying shares of the Company kept under section 336 of the SFO showed that, other than the interests of Tan Sri Dato' Sri Dr. Teh Hong Piow as disclosed above, the following shareholders had interests of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of ordinary shares	Percentage of interests in the issued share capital %
Substantial shareholder			
Public Bank	Beneficial owner	804,017,920	73.2312

All the interests stated above represent long positions. Save as disclosed above and under the heading "Directors' interests and short positions in shares and underlying shares", no person had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded under section 336 of the SFO at the end of the year.

Report of the Directors

CORPORATE GOVERNANCE

The Group is committed to maintaining a high level of corporate governance practices. A detailed Corporate Governance Report is set out on pages 17 to 41 of the annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, the Directors confirmed that the Company has maintained the amount of public float as required under the Listing Rules as at the latest practicable date prior to the issue of the annual report.

DONATIONS

During the year, the Group made charitable donations totalling HK$9,000 (2018: HK$2,100).

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company comprises three Independent Non-Executive Directors, namely Mr. Tang Wing Chew, Mr. Lee Chin Guan and Mr. Lai Wan, and one Non-Executive Director, namely Mr. Quah Poh Keat. The 2019 annual report has been reviewed by the Audit Committee.

AUDITORS

Ernst & Young retire and a resolution for its re-appointment as auditors of the Company will be proposed at the forthcoming AGM.

PUBLICATION OF 2019 ANNUAL REPORT

The 2019 annual report in electronic form is now available on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.publicfinancial.com.hk. Printed copies are also available upon written request to the Company c/o the Company's Share Registrar, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong specifying the name, address and request to receive the Group's annual report in printed copy.

ON BEHALF OF THE BOARD
Lai Wan
Director

16 January 2020

Independent Auditor's Report

Ernst & Young
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To the members of Public Financial Holdings Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Public Financial Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 62 to 160, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

Key audit matter

Goodwill

Refer to the summary of significant accounting policies in note 5, significant accounting estimates in note 6 and the disclosures of goodwill in note 27 to the financial statements.

Goodwill impairment testing of cash-generating units ("CGUs") relies on estimates of value-in-use based on estimated future cash flows. The Group is required to annually test the amount of goodwill for impairment.

We considered goodwill as a key audit matter due to (i) the significance of the goodwill of HK$2,774 million recognised in the consolidated financial statements of the Group; and (ii) the level of subjectivity associated with the assumptions used in estimating the value-in-use of the CGUs, including the first 10-year period cash flow forecasts, the growth rates used to extrapolate the cash flows after the first 10-year period and the discount rates applied.

How our audit addressed the key audit matter

We obtained management's goodwill impairment assessment and evaluated the appropriateness of the allocation of goodwill, assets and cash flows to their respective CGUs. We tested the mathematical accuracy of the cash flow forecasts utilized in the value-in-use calculations.

Our audit procedures also included, among others, evaluating the assumptions and methodologies used by the Group in performing the impairment assessment, in particular those relating to the first 10-year period cash flow forecasts, the growth rates used to extrapolate the cash flows after the first 10-year period and the discount rates applied.

We tested the basis of preparing the cash flow forecasts, taking into account the results of back testing on the accuracy of previous forecasts, and the historical evidence supporting the underlying assumptions. We also assessed the appropriateness of the other key assumptions such as the growth rates used to extrapolate the cash flows and the discount rates applied by comparing against internal information and external economic and market data.

We reviewed management's sensitivity and stress testing analysis and independently tested those assumptions to which the outcome of the impairment test is most sensitive.

We evaluated the adequacy of financial statement disclosures relating to goodwill impairment.

KEY AUDIT MATTERS (Continued)

Key audit matter (Continued)

Impairment of loans and advances and receivables

Refer to the summary of significant accounting policies in note 5, significant accounting estimates in note 6 and the disclosures of loans and advances and receivables in note 19 to the financial statements.

The measurement of expected credit loss ("ECL") requires the application of significant judgements which include the identification of exposures with a significant deterioration in credit quality, and assumptions used in the ECL models, such as the probabilities of default, loss given default, expected future cash flows and forward-looking macroeconomic factors.

Due to the significance of loans and advances and receivables (representing 63% of total assets) and the corresponding subjectivity inherent in the estimation of ECL allowances, we considered this as a key audit matter.

How our audit addressed the key audit matter (Continued)

Our audit procedures included the assessment of the operating effectiveness of controls over the origination, segmentation, ongoing internal credit quality assessments, recording and monitoring of loans and advances and receivables.

We also assessed the operating effectiveness of key controls over the application of the impairment methodology, the governance for the ECL models, inputs and assumptions used by the Group in calculating the ECL and the mathematical accuracy of the ECL calculations.

For collectively assessed ECL, we assessed the validity of the Group's ECL models, including model input, model design and model performance for significant portfolios. We assessed the Group's criteria for assessing if a significant increase in credit risk had occurred against the requirements of HKFRS 9 and tested the staging of the Group's financial assets against these criteria. We challenged whether historical experience is representative of current circumstances and the recent loss experience incurred in the portfolios. We assessed whether the forward-looking adjustments, including the economic variables and assumptions used in each of the economic scenarios and their probability weightings were consistent with internal information and external economic and market data. Where changes had been made in model parameters and assumptions, we evaluated the appropriateness of such changes. We also assessed and tested the sensitivity of the credit loss provisions to changes in modelling assumptions.

For a sample of exposures that were subject to an individual impairment assessment, we reviewed the Group's assumptions of the expected future cash flows, including assumptions in respect of the realizable value of collateral.

We also evaluated the adequacy of financial statement disclosures relating to the Group's exposure to credit risk.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Hau Liang Ping.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

16 January 2020

Consolidated Income Statement

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Interest income	8	**1,955,887**	1,881,356
Interest expense	8	**(595,615)**	(478,913)
NET INTEREST INCOME		**1,360,272**	1,402,443
Other operating income	9	**245,119**	231,054
OPERATING INCOME		**1,605,391**	1,633,497
Operating expenses	10	**(885,454)**	(870,928)
Changes in fair value of investment properties		**62,560**	21,679
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		**782,497**	784,248
Credit loss expenses	11	**(222,118)**	(162,046)
PROFIT BEFORE TAX		**560,379**	622,202
Tax	14	**(94,039)**	(111,724)
PROFIT FOR THE YEAR		**466,340**	510,478
ATTRIBUTABLE TO:			
Owners of the Company		**466,340**	510,478
EARNINGS PER SHARE (HK$)	16		
Basic		**0.425**	0.465
Diluted		**0.425**	0.465

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
PROFIT FOR THE YEAR	**466,340**	510,478
OTHER COMPREHENSIVE INCOME FOR THE YEAR		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations, net of tax	**(14,575)**	(46,826)
Surplus on revaluation of properties	**3,982**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**455,747**	463,652
ATTRIBUTABLE TO:		
Owners of the Company	**455,747**	463,652

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
ASSETS			
Cash and short term placements	17	**4,444,441**	3,953,773
Placements with banks and financial institutions maturing after one month but not more than twelve months	18	**1,532,536**	1,556,342
Derivative financial instruments		**15,445**	2,541
Loans and advances and receivables	19	**28,630,953**	29,877,579
Equity investments at fair value through other comprehensive income	20	**6,804**	6,804
Held-to-collect debt securities at amortised cost	21	**6,078,760**	6,202,949
Investment properties	22	**391,316**	345,715
Property and equipment	23	**168,169**	145,090
Land held under finance leases	24	**688,036**	676,073
Right-of-use assets	25	**128,668**	–
Deferred tax assets	32	**35,233**	41,338
Tax recoverable		**–**	1,222
Goodwill	27	**2,774,403**	2,774,403
Intangible assets	28	**718**	718
Other assets	26	**327,358**	166,343
TOTAL ASSETS		**45,222,840**	45,750,890
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**787,235**	572,712
Derivative financial instruments		**4,651**	7,275
Customer deposits at amortised cost	30	**33,917,425**	35,284,322
Dividends payable	15	**164,688**	186,646
Unsecured bank loans at amortised cost	31	**1,542,693**	1,444,614
Lease liabilities	25	**132,944**	–
Current tax payable		**63,253**	15,298
Deferred tax liabilities	32	**41,186**	36,350
Other liabilities	26	**591,379**	455,863
TOTAL LIABILITIES		**37,245,454**	38,003,080

Consolidated Statement of Financial Position

31 December 2019

	Notes	**2019 HK$'000**	2018 HK$'000
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital	33	**109,792**	109,792
Reserves	34	**7,867,594**	7,638,018
TOTAL EQUITY		**7,977,386**	7,747,810
TOTAL EQUITY AND LIABILITIES		**45,222,840**	45,750,890

Lai Wan
Director

Tan Yoke Kong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Notes	**2019 HK$'000**	2018 HK$'000
TOTAL EQUITY			
As at 1 January (Reported)		**7,747,810**	7,525,700
Impact of adopting HKFRS 16	5	**(6,587)**	–
Restated opening balance under HKFRS 16		**7,741,223**	7,525,700
Profit for the year		**466,340**	510,478
Other comprehensive income in translation reserve		**(14,575)**	(46,826)
Other comprehensive income in property revaluation reserve		**3,982**	–
Total comprehensive income for the year		**455,747**	463,652
Dividends declared on shares	15	**(219,584)**	(241,542)
Balance at the end of the year		**7,977,386**	7,747,810

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**560,379**	622,202
Adjustments for:			
Depreciation of property and equipment and land held under finance leases	10	**35,000**	32,349
Depreciation of right-of-use assets	10	**66,605**	–
Net losses/(gains) on disposal of property and equipment	9	**101**	(4)
Gain on termination of leases	9	**(1,212)**	–
Other interest expenses	8	**3,705**	–
Increase/(decrease) in credit loss expenses for loans and advances and receivables		**23,870**	(3,156)
Increase/(decrease) in credit loss expenses for held-to-collect debt securities at amortised cost and bank placements		**24**	(32)
Dividend income from listed investments	9	**(103)**	(118)
Dividend income from unlisted investments	9	**(35)**	(700)
Increase in fair value of investment properties		**(62,560)**	(21,679)
Exchange differences		**(14,126)**	(46,916)
Payment of dismantling costs		**(188)**	–
Profits tax paid		**(33,080)**	(130,676)
Operating profit before changes in operating assets and liabilities		**578,380**	451,270
Decrease/(increase) in operating assets:			
Decrease in placements with banks and financial institutions		**656,290**	220,433
Decrease/(increase) in loans and advances and receivables		**1,222,756**	(405,039)
Increase in held-to-collect debt securities at amortised cost		**(74,948)**	(321,296)
(Increase)/decrease in other assets		**(161,015)**	62,055
(Increase)/decrease in derivative financial instruments		**(12,904)**	1,776
		1,630,179	(442,071)
Decrease in operating liabilities:			
Increase/(decrease) in deposits and balances of banks and other financial institutions at amortised cost		**214,523**	(551,080)
(Decrease)/increase in customer deposits at amortised cost		**(1,366,897)**	1,300,227
Decrease in certificates of deposit issued at amortised cost		**–**	(753,293)
(Decrease)/increase in derivative financial instruments		**(2,624)**	5,579
Increase/(decrease) in other liabilities		**130,914**	(6,808)
		(1,024,084)	(5,375)
Net cash inflow from operating activities		**1,184,475**	3,824

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	23	**(49,289)**	(34,776)
Purchase of an investment property	22	**–**	(47,100)
Sales proceeds from disposal of property and equipment		**87**	18
Dividends received from listed investments		**103**	118
Dividends received from unlisted investments		**35**	700
Net cash outflow from investing activities		**(49,064)**	(81,040)
CASH FLOWS FROM FINANCING ACTIVITIES			
New unsecured bank loan		**136,414**	25,000
Repayment of unsecured bank loans		**(38,335)**	(162,238)
Repayment of lease liabilities	25	**(67,909)**	–
Dividends paid on shares		**(241,542)**	(230,563)
Net cash outflow from financing activities		**(211,372)**	(367,801)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**924,039**	(445,017)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**4,104,382**	4,549,399
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**5,028,421**	4,104,382
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand	39	**1,128,726**	1,110,116
Money at call and short notice with an original maturity within three months		**3,048,856**	2,483,735
Placements with banks and financial institutions with an original maturity within three months		**617,777**	78,319
Held-to-collect debt securities at amortised cost with an original maturity within three months		**233,062**	432,212
		5,028,421	4,104,382
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		**(620,716)**	(409,375)
Interest received		**1,965,628**	1,883,051

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank loans HK$'000	Dividends payable HK$'000	Lease liabilities HK$'000	Total liabilities from financing activities HK$'000
As at 31 December 2018 (Reported)	1,444,614	186,646	–	1,631,260
Impact of adopting HKFRS 16	**–**	**–**	**136,089**	**136,089**
Restated opening balance under HKFRS 16 as at 1 January 2019	**1,444,614**	**186,646**	**136,089**	**1,767,349**
Changes from financing cash flows:				
Proceeds from new unsecured bank loans	**136,414**	**–**	**–**	**136,414**
Repayment of unsecured bank loans	**(38,335)**	**–**	**–**	**(38,335)**
Dividends paid on ordinary shares	**–**	**(241,542)**	**–**	**(241,542)**
Repayment of lease liabilities	**–**	**–**	**(67,909)**	**(67,909)**
Total changes from financing cash flows	**98,079**	**(241,542)**	**(67,909)**	**(211,372)**
Other changes:				
Dividends declared on ordinary shares	**–**	**219,584**	**–**	**219,584**
Additions to lease liabilities	**–**	**–**	**65,237**	**65,237**
Interest expense on lease liabilities	**–**	**–**	**3,598**	**3,598**
Reassessment on lease liabilities	**–**	**–**	**(3,851)**	**(3,851)**
Exchange difference on lease liabilities	**–**	**–**	**(220)**	**(220)**
Total other changes	**–**	**219,584**	**64,764**	**284,348**
As at 31 December 2019	**1,542,693**	**164,688**	**132,944**	**1,840,325**

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (Continued)

	Bank loans HK$'000	Dividends payable HK$'000	Total liabilities from financing activities HK$'000
As at 1 January 2018	1,581,852	175,667	1,757,519
Changes from financing cash flows:			
Proceeds from new unsecured bank loans	25,000	–	25,000
Repayment of unsecured bank loans	(162,238)	–	(162,238)
Dividends paid on ordinary shares	–	(230,563)	(230,563)
Total changes from financing cash flows	(137,238)	(230,563)	(367,801)
Other changes:			
Dividends declared on ordinary shares	–	241,542	241,542
Total other changes	–	241,542	241,542
As at 31 December 2018	1,444,614	186,646	1,631,260

Notes to Financial Statements

1. CORPORATE AND GROUP INFORMATION

The Company is incorporated in Bermuda. The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM 11, Bermuda.

The Company is a limited liability company and its shares are listed on the Stock Exchange (stock code: 626).

During the year, the Group's principal activities were the provision of banking, financial and related services, stockbroking, the letting of investment properties, the provision of financing to purchasers of taxis and public light buses, the trading of taxi cabs and taxi licences, and the leasing of taxis.

In the opinion of the Directors, the holding company and the ultimate holding company of the Company is Public Bank, which is incorporated in Malaysia.

Particulars of the Company's subsidiaries are as follows:

Name	Issued ordinary share capital HK$	Percentage of equity attributable to the Company Direct %	Percentage of equity attributable to the Company Indirect %	Principal activities
Public Bank (Hong Kong) Limited	2,854,045,000	100	–	Provision of banking, financial and related services
Public Bank (Nominees) Limited	100,000	–	100	Provision of nominee services
Public Credit Limited	5,000,000	–	100	In members' voluntary liquidation
Public Futures Limited	2	–	100	Dormant
Public Pacific Securities Limited	12,000,000	–	100	In members' voluntary liquidation
Public Financial Securities Limited	48,000,000	–	100	Securities brokerage
Public Finance Limited	671,038,000	–	100	Deposit-taking and financing
Public Financial Limited	10,100,000	–	100	Investment holding
Public Securities Limited	10,000,000	–	100	Securities brokerage
Public Securities (Nominees) Limited	10,000	–	100	Provision of nominee services
Winton (B.V.I.) Limited	61,773	100	–	Investment holding

1. CORPORATE AND GROUP INFORMATION (Continued)

Name	Issued ordinary share capital HK$	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Winton Financial Limited	4,000,010	–	100	Provisions of personal and property mortgage loans, and financing of licensed public vehicles such as taxis
Winton Motors, Limited	78,000	–	100	Trading of taxi cabs, taxi licences and leasing of taxis

Note:

Except for Winton (B.V.I.) Limited, which is incorporated in the British Virgin Islands, all subsidiaries are incorporated in Hong Kong. Except for Public Bank (Hong Kong), which operates in Hong Kong and Mainland China, all subsidiaries operate in Hong Kong.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (a collective term which includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have also complied with the applicable disclosure provisions of the Listing Rules. They also contain certain disclosure information required under the Banking (Disclosure) Rules issued by the HKMA.

These financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss ("FVPL") and equity investments at fair value through other comprehensive income ("FVOCI").

3. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019.

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

3. BASIS OF CONSOLIDATION (Continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the owners of the parent of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in OCI is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

The subsidiaries consolidated for accounting purposes are Public Bank (Hong Kong), Public Finance, Winton (B.V.I.) Limited and their subsidiaries.

4. BASIS OF CAPITAL DISCLOSURES

The Group has complied with the capital requirements during the reporting period related to capital base and the capital adequacy ratio as stipulated by the HKMA, and has referred to the Banking (Disclosure) Rules.

Should the Group have not complied with the externally imposed capital requirements of the HKMA, capital management plans should be submitted to the HKMA for restoration of capital to the minimum required level as soon as possible.

The computation of the consolidated total capital ratio and other regulatory capital ratios of the Group is based on the consolidation of the Company, Public Bank (Hong Kong) and Public Finance for regulatory reporting purposes.

There are no major restrictions or impediments on the transfer of capital or funds among the members of the Company's consolidation group except that liquidity, capital and other performance indicators of Public Financial Securities Limited and Public Securities Limited should satisfy the minimum requirements of the Securities and Futures (Financial Resources) Rules issued by the SFC.

Notes to Financial Statements

4. BASIS OF CAPITAL DISCLOSURES (Continued)

A portion of retained profits, based on a percentage of gross loans and advances, is set aside as a non-distributable regulatory reserve as part of CET1 capital and is included in the capital base pursuant to the HKMA capital requirements.

The Group has adopted the provisions of the Banking (Amendment) Ordinance 2012 relating to the Basel III capital standards and the amended Banking (Capital) Rules (the "Capital Rules"). The Capital Rules outline the general requirements on regulatory capital ratios, the components of eligible regulatory capital as well as the levels of those ratios at which banking institutions are required to operate. The Capital Rules have been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision. Under the Capital Rules, the minimum capital ratio requirements are progressively increased during the period from 1 January 2013 to 1 January 2019, and include a phased introduction of a capital conservation buffer ("CCB") ratio of 2.5%. Additional capital requirements, including a countercyclical capital buffer ("CCyB") ratio ranging from 0% to 2.5%, have been implemented since 1 January 2016. The required CCyB ratio for 2018 and 2019 is 1.875% and 2.0%, respectively.

5. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The HKICPA has issued a number of new and revised HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2019. The Group has adopted the following new and revised standards for the first time for the current year's financial statements:

• Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
• HKFRS 16	*Leases*
• Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
• Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
• HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
• *Annual Improvements 2015-2017 Cycle*	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments included in Amendments to HKFRS 9, Amendments to HKAS 19, Amendments to HKAS 28 and *Annual Improvements 2015-2017 Cycle*, which are not relevant to the preparation of the Group's consolidated financial statements, the nature and impact of the amendments are described below.

HKFRS 16

HKFRS 16 supersedes HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases-Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single lessee accounting model.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition requirements and practical expedients allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("leases of low-value assets").

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

The transition effects arising from the adoption of HKFRS 16 are presented below.

The following tables analyse the impact, net of tax, of transition to HKFRS 16 on the statement of financial position of the Group.

	1 January 2019 HK$'000
Deferred tax assets	
Closing balance under HKAS 17 at 31 December 2018	41,338
– Deferred tax effect under HKFRS 16	**1,301**
Opening balance under HKFRS 16 at 1 January 2019	**42,639**
Right-of-use assets	
Closing balance under HKAS 17 at 31 December 2018	–
– Recognition of right-of-use assets under HKFRS 16	**132,745**
Opening balance under HKFRS 16 at 1 January 2019	**132,745**
Lease liabilities	
Closing balance under HKAS 17 at 31 December 2018	–
– Recognition of lease liabilities under HKFRS 16	**136,089**
Opening balance under HKFRS 16 at 1 January 2019	**136,089**
Other liabilities	
Closing balance under HKAS 17 at 31 December 2018	455,863
– Recognition of other liabilities under HKFRS 16	**4,544**
Opening balance under HKFRS 16 at 1 January 2019	**460,407**
Retained profits	
Closing balance under HKAS 17 at 31 December 2018	3,219,068
– Recognition of right-of-use assets under HKFRS 16	**132,745**
– Recognition of lease liabilities under HKFRS 16	**(136,089)**
– Recognition of other liabilities under HKFRS 16	**(4,544)**
– Deferred tax effect under HKFRS 16	**1,301**
Opening balance under HKFRS 16 at 1 January 2019	**3,212,481**

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

Consolidated Statement of Financial Position	31 December 2018 HK$'000	Remeasurement HK$'000	1 January 2019 HK$'000
Assets			
Cash and short term placements	3,953,773	–	3,953,773
Placements with banks and financial institutions maturing after one month but not more than twelve months	1,556,342	–	1,556,342
Derivative financial instruments	2,541	–	2,541
Loans and advances and receivables	29,877,579	–	29,877,579
Equity investments at fair value through other comprehensive income	6,804	–	6,804
Held-to-collect debt securities at amortised cost	6,202,949	–	6,202,949
Investment properties	345,715	–	345,715
Property and equipment	145,090	–	145,090
Land held under finance leases	676,073	–	676,073
Right-of-use assets	–	132,745	132,745
Deferred tax assets	41,338	1,301	42,639
Tax recoverable	1,222	–	1,222
Goodwill	2,774,403	–	2,774,403
Intangible assets	718	–	718
Other assets	166,343	–	166,343
Total Assets	45,750,890	134,046	45,884,936

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

Consolidated Statement of Financial Position	31 December 2018 HK$'000	Remeasurement HK$'000	1 January 2019 HK$'000
Equity and Liabilities			
Liabilities			
Deposits and balances of banks and other financial institutions at amortised cost	572,712	–	**572,712**
Derivative financial instruments	7,275	–	**7,275**
Customer deposits at amortised cost	35,284,322	–	**35,284,322**
Dividends payable	186,646	–	**186,646**
Unsecured bank loans at amortised cost	1,444,614	–	**1,444,614**
Lease liabilities	–	**136,089**	**136,089**
Current tax payable	15,298	–	**15,298**
Deferred tax liabilities	36,350	–	**36,350**
Other liabilities	455,863	**4,544**	**460,407**
Total Liabilities	38,003,080	**140,633**	**38,143,713**
Equity attributable to owners of the Company			
Issued capital	109,792	–	**109,792**
Reserves	7,638,018	**(6,587)**	**7,631,431**
Total Equity	7,747,810	**(6,587)**	**7,741,223**
Total Equity and Liabilities	45,750,890	**134,046**	**45,884,936**

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of land and buildings. Before the adoption of HKFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities, respectively.

Upon adoption of HKFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

Nature of the effect of adoption of HKFRS 16 (Continued)

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e. the right-of-use assets and lease liabilities equal to the lease assets and liabilities recognised under HKAS 17). The requirements of HKFRS 16 were applied to these leases from 1 January 2019.

Leases previously classified as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equals to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Applied the short-term lease recognition exemption to leases with lease term that ends within 12 months at the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of HK$132,745,000 were recognised and presented separately in the statement of financial position.
- Additional lease liabilities of HK$136,089,000 were recognised.
- Provisions for dismantling cost of HK$4,544,000 were recognised.
- Deferred tax assets increased by HK$1,301,000 because of the deferred tax impact of the changes in assets and liabilities.
- The net effect of these adjustments had been adjusted to retained earnings in the amount of HK$6,587,000.

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

Nature of the effect of adoption of HKFRS 16 (Continued)

Leases previously classified as operating leases (Continued)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	113,913
Weighted average incremental borrowing rate as at 1 January 2019	**2.73%**
Discounted operating lease commitments as at 1 January 2019	**102,647**
Add:	
Payments in optional extension periods not recognised as at 31 December 2018	**33,442**
Lease liabilities as at 1 January 2019	**136,089**

HK(IFRIC)-Int 23

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The interpretation has had no significant impact on the Group's financial statements.

Issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that are expected to be relevant to the Group and have been issued but are not yet effective, in these financial statements:

- Amendments to HKFRS 3 — *Definition of a Business*[1]
- Amendments to HKFRS 10 and HKAS 28 (2011) — *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
- Amendments to HKAS 1 and HKAS 8 — *Definition of Material*[1]

1 *Effective for annual periods beginning on or after 1 January 2020*

2 *No mandatory effective date yet determined but available for adoption*

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

Further information about those HKFRSs that are expected to be relevant to the Group is as follows:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered as a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

(1) Foreign currency translation

These financial statements are presented in HKD, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in "Other operating income" or "Other operating expenses" in the consolidated income statement with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity which is taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in OCI or profit or loss is also recognised in OCI or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries and overseas branches and offices are translated into the Group's presentation currency at the rates of exchange ruling at the end of the reporting period, and their statements of comprehensive income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement as part of gains or losses on disposal.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVOCI, and FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the solely payments of principal and interest test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(i) Financial assets (Continued)

Financial assets at amortised cost (debt instruments)
The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold the financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes cash and short term placements, placements with banks and financial institutions, loans and advances and receivables, and held-to-collect debt securities.

Financial assets at FVOCI (debt instruments)
The Group measures debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated income statement and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets designated at FVOCI (equity instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the consolidated income statement when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(i) Financial assets (Continued)

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the consolidated income statement.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at FVOCI. Dividends on listed equity investments are also recognised as "other operating income" in the consolidated income statement when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at FVPL. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVPL category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at FVPL.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, lease liabilities, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include deposits and balances of banks and other financial institutions at amortised cost, customer deposits at amortised cost, certificates of deposit issued at amortised cost, unsecured bank loan at amortised cost, other liabilities and foreign exchange contracts.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(ii) Financial liabilities (Continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated income statement.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. The Group has not designated any financial liability as at FVPL.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the consolidated income statement.

This category generally applies to customer deposits at amortised cost and unsecured bank loans at amortised cost.

(3) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements in "Other liabilities" at fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at FVPL. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement in "Net fees and commission income" under "Other operating income" on a straight-line basis over the life of the guarantee.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(4) Derecognition of financial assets and financial liabilities

(i) *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(ii) *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

(iii) *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(5) Fair value measurement

The Group measures its investment properties and derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that will be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that will use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(6) Impairment of financial assets

The Group recognises an allowance for ECLs for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(6) Impairment of financial assets (Continued)

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). For credit cards and revolving facilities that include both the loan and undrawn commitments, financial guarantees and letters of credit, ECLs are calculated and presented together with the loan.

For accounts receivable from contracts with customers, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic conditions.

For loans and advances, trade bills, accrued interests, loan commitments, financial guarantee contracts and letters of credit, the ECL is based on the 12-month ECL. The 12-month ECL is a portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowances will be based on the lifetime ECL.

The Group considers that there has been a significant increase in credit risk (i.e. Stage 2 for ECL calculations) in all cases when contractual payments are more than 30 days past due. The Group considers a financial asset in default (i.e. Stage 3 (credit-impaired) for ECL calculations) in all cases when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Group
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower’s turnover or the loss of a major customer

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(6) Impairment of financial assets (Continued)

- A covenant breach not waived by the Group
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Group's policy to consider a financial instrument as "cured" and therefore reclassified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

All exposures attributed to the held-to-collect debt securities at amortised cost were rated with a grading of A3 or above based on the credit rating of Moody's Investors Service ("Moody's"), an external credit agency, as at 31 December 2019 and 31 December 2018. Over 90% (31 December 2018: over 90%) of the placements were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's. Therefore, they are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from Moody's both to determine whether the debt instrument has significant increase in credit risk and to estimate ECLs.

(7) Leases

Policy applicable from 1 January 2019

The Group assesses at contract inception whether a contract is, or contains, a lease. If the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, it is classified as a lease.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(7) Leases (Continued)

Policy applicable from 1 January 2019 (Continued)

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date which the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are also subject to impairment. Right-of-use assets are depreciated on a straight-line basis, as follows:

Land and Buildings:	Over the lease terms plus extension option period

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification (i.e. a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset).

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is accounted for on a straight-line basis over the lease terms and is included in other operating income in the consolidated income statement. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(7) Leases (Continued)

Policy applicable prior to 1 January 2019

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) *Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item other than legal titles, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and classified as "Property and equipment" but represented on a separate line with the corresponding liability to the lessor included in "Other liabilities". Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in "Interest expense" in the consolidated income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are not recognised in the consolidated statement of financial position. Any rentals payable are accounted for on a straight-line basis over the lease term and are included in "Operating expenses".

Land held under finance leases are stated at cost less accumulated depreciation and any impairment, and are depreciated over the remaining lease terms on a straight-line basis to the consolidated income statement.

Medium-term leases are leases with remaining lease periods of more than 10 years but not more than 50 years. Long-term leases are leases with remaining lease periods of more than 50 years.

(ii) *Group as a lessor*

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. The Group leases out all of its investment properties as operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and are recognised over the lease term on the same basis as rental income. Contingent rents are recognised as other operating income in the period in which they are earned.

The amounts due from the lessees under finance leases are recorded in the consolidated statement of financial position as loans and advances to customers. The amount comprises the gross investment in the finance leases less gross earnings allocated to future accounting periods. The total gross earnings under finance leases are allocated to the accounting periods over the duration of the underlying agreements so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(8) Interest income and expense, fee and commission income and other operating income

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest income or expense.

Once the value of a financial asset or a group of similar financial assets had been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(a) <u>Fee income earned from services that are provided over a certain period of time</u>
Fees earned from the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(b) <u>Fee income from providing transaction services</u>
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

(iii) Dividend income

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(8) Interest income and expense, fee and commission income and other operating income (Continued)

(iv) Net trading income

Net trading income arising from trading activities includes all gains and losses from changes in fair value for financial assets and financial liabilities held for trading. Gains and losses on foreign exchange trading and other transactions are also reported as "Net trading income" except for those gains and losses on translation of foreign currencies recognised in the translation reserve.

(v) Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the consolidated income statement as "Other operating income".

(9) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, amounts due from banks on demand or with original maturity within three months and held-to-collect debt securities at amortised cost with original maturity within three months.

(10) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or a liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in consolidated income statement as a gain on bargain purchase.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(10) Business combinations and goodwill (Continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (the "CGU(s)"), or group of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the CGU (group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (group of CGUs) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

(11) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(11) Related parties (Continued)

(b) the party is an entity where any of the following conditions applies: (Continued)

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

(12) Property and equipment, and depreciation

Property and equipment are stated at cost, except for certain buildings transferred from investment properties which are stated at deemed cost at the date of transfer, less accumulated depreciation and impairment. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2% to 4%
Leasehold improvements:	
Own leasehold buildings	20% to 33 1/3%
Others	Over the shorter of the remaining lease terms and 7 years
Furniture, fixtures and equipment	10% to 33 1/3%
Motor vehicles	20% to 25%
Land held under finance leases	Over the lease terms

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Land held under finance leases is stated at cost less accumulated depreciation and any impairment, and is depreciated over the remaining lease terms on a straight-line basis to the consolidated income statement.

Medium-term leases are leases with remaining lease periods of more than 10 years to 50 years. Long-term leases are leases with remaining lease periods of more than 50 years.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(13) Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property and equipment, and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property and equipment, and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the consolidated income statement.

(14) Intangible assets (other than goodwill)

Intangible assets, representing eligibility rights to trade on or through Hong Kong Exchanges and Clearing Limited, are stated at cost less impairment. The useful lives are assessed to be indefinite and they are reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis. The carrying amount of intangible assets is subject to an annual impairment test, and impairment, if any, is charged to the consolidated income statement.

(15) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined as the actual cost for taxi cabs and taxi licences. Net realisable value is based on estimated selling prices less any estimated costs to be incurred on disposal.

(16) Impairment of non-financial assets

The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group will make an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) that the Group considered impaired is written down to its recoverable amount.

For assets excluding goodwill, deferred tax assets and inventories of taxi licences, an assessment is made at each reporting date as to determine whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period it arises.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(17) Repossessed assets and valuation of collateral

Collateral assets for loans and advances and receivables are repossessed by the Group when the borrowers are unable to service their repayments, and would be realised in satisfaction of outstanding debts. Advances with repossessed collateral assets will continue to be accounted for as customer advances, except for those where the Group has taken the legal title and control of the repossessed collateral assets, in which cases the repossessed assets are shown under other accounts at the predetermined value with a corresponding reduction in the related advances. Individual impairment allowance is made on the shortfall between the expected net realisable value of the repossessed assets and the outstanding advances.

Repossessed assets are recognised at the lower of the carrying amount of the related loans and advances and receivables and fair value less costs to sell.

(18) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Operating expenses" in the consolidated income statement.

(19) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credit and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credit and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(19) Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(20) Employee benefits

(i) Retirement benefit schemes

The Group participates in two defined contribution retirement benefit schemes for those employees who are eligible to participate. The assets of the schemes are held separately from those of the Group in independently administered funds.

Contribution for Mandatory Provident Fund (MPF) Scheme is made based on a percentage of the participating employees' relevant monthly income from the Group while contribution for Occupational Retirement Schemes Ordinance (ORSO) Scheme is made based on the participating employees' basic salary, and the contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the respective schemes. When an employee leaves the Group prior to his/her interest in the Group's employer non-mandatory contributions vesting with the employee, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. The Group's mandatory contributions vest fully with the employee.

(ii) Employee leave entitlements

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated as at the end of the reporting period.

(21) Dividends

Final dividends proposed by the Directors will remain in retained profits within reserves in the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared by the Directors. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment allowances on loans and advances and receivables

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns probabilities of default to the individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets based on risk characteristics of the customers and by product types when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs over determination of the period over which the entity is exposed to credit risk based on the behavioural life of the credit exposures, loss given default and collateral recovery of the credit exposures
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probabilities of default, exposures at default and losses given default
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the CGUs to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2019 and 31 December 2018 was HK$2,774,403,000, of which HK$832,321,000 was attributed to Public Bank (Hong Kong) and HK$1,942,082,000 was attributed to Public Finance. Further details are set out in note 27 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease the assets for additional terms of two to three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is beyond its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

Property lease classification – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the risks and rewards incidental to ownership of these properties and accounts for the contracts as operating leases.

7. SEGMENT INFORMATION

Operating segment information

In accordance with the Group's internal financial reporting, the Group has identified operating segments based on similar economic characteristics, products and services and delivery methods. The operating segments are identified by senior management who is designated as the "Chief Operating Decision Maker" to make decisions about resources allocation to the segments and assess their performance. A summary of the operating segments is as follows:

- retail and commercial banking businesses segment mainly comprises the provision of deposit account services, the extension of mortgages and consumer lending, hire purchase and leasing, provision of financing to purchasers of licensed public vehicles such as taxis and public light buses, provision of services and financing activities for customers in trading, manufacturing and various business sectors, foreign exchange activities, centralised cash management for deposit taking and lending, interest rate risk management and the overall funding management of the Group;

- wealth management services, stockbroking and securities management segment comprises management of investments in debt securities and equities, securities dealing and receipt of commission income and the provision of authorised wealth management products and services; and

- other businesses segment comprises taxi trading, leasing of taxis and letting of investment properties.

7. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table discloses the revenue and profit information for operating segments for the years ended 31 December 2019 and 31 December 2018.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Segment revenue								
External:								
Net interest income/(expense)	**1,361,070**	1,402,681	**(798)**	(238)	**-**	–	**1,360,272**	1,402,443
Other operating income:								
Fees and commission income	**144,342**	152,254	**52,781**	46,334	**289**	354	**197,412**	198,942
Others	**31,974**	13,609	**(5)**	(8)	**15,738**	18,511	**47,707**	32,112
Operating income	**1,537,386**	1,568,544	**51,978**	46,088	**16,027**	18,865	**1,605,391**	1,633,497
Operating profit after credit loss expenses before tax	**468,966**	572,627	**28,601**	22,855	**62,812**	26,720	**560,379**	622,202
Tax							**(94,039)**	(111,724)
Profit for the year							**466,340**	510,478
Other segment information								
Depreciation of property and equipment and land held under finance leases	**(35,000)**	(32,349)	**-**	–	**-**	–	**(35,000)**	(32,349)
Depreciation of right-of-use assets	**(66,605)**	–	**-**	–	**-**	–	**(66,605)**	–
Changes in fair value of investment properties	**-**	–	**-**	–	**62,560**	21,679	**62,560**	21,679
Credit loss expenses	**(222,118)**	(162,046)	**-**	–	**-**	–	**(222,118)**	(162,046)
Net (losses)/gains on disposal of property and equipment	**(101)**	4	**-**	–	**-**	–	**(101)**	4

Notes to Financial Statements

7. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table discloses certain asset and liability information regarding operating segments as at 31 December 2019 and 31 December 2018.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Segment assets other than intangible assets and goodwill	**41,595,033**	42,277,363	**425,413**	309,555	**392,040**	346,291	**42,412,486**	42,933,209
Intangible assets	**-**	–	**718**	718	**-**	–	**718**	718
Goodwill	**2,774,403**	2,774,403	**-**	–	**-**	–	**2,774,403**	2,774,403
Segment assets	**44,369,436**	45,051,766	**426,131**	310,273	**392,040**	346,291	**45,187,607**	45,708,330
Unallocated assets:								
Deferred tax assets and tax recoverable							**35,233**	42,560
Total assets							**45,222,840**	45,750,890
Segment liabilities	**36,784,169**	37,667,853	**184,779**	89,378	**7,379**	7,555	**36,976,327**	37,764,786
Unallocated liabilities:								
Deferred tax liabilities and tax payable							**104,439**	51,648
Dividends payable							**164,688**	186,646
Total liabilities							**37,245,454**	38,003,080
Other segment information								
Additions to non-current assets – capital expenditure	**49,289**	81,876	**-**	–	**-**	–	**49,289**	81,876

7. SEGMENT INFORMATION (Continued)

Geographical information

Geographical information is analysed by the Group based on the locations of the principal operations of the branches and subsidiaries which are responsible for reporting the results or booking the assets.

The following table discloses the segment revenue information for geographical segments for the years ended 31 December 2019 and 31 December 2018.

	2019 HK$'000	2018 HK$'000
Segment revenue from external customers:		
Hong Kong	**1,475,354**	1,501,511
Mainland China	**130,037**	131,986
	1,605,391	1,633,497

Segment revenue is allocated to the reportable segments with reference to interest, fees and commission income generated by these segments.

The following table discloses the non-current asset information for geographical segments as at 31 December 2019 and 31 December 2018.

	2019 HK$'000	2018 HK$'000
Non-current assets:		
Hong Kong	**4,126,160**	3,925,618
Mainland China	**25,150**	16,381
	4,151,310	3,941,999

Non-current assets consist of investment properties, property and equipment, land held under finance leases, goodwill, right-of-use assets and intangible assets.

Operating income or revenue from major customers

Operating income or revenue from transactions with each external customer amounted to less than 10% (2018: less than 10%) of the Group's total operating income or revenue.

Notes to Financial Statements

8. INTEREST INCOME AND EXPENSE

	2019 **HK$'000**	2018 HK$'000
Interest income from:		
Loans and advances and receivables	**1,701,004**	1,654,297
Short term placements and placements with banks	**118,439**	125,236
Held-to-collect debt securities at amortised cost	**136,444**	101,823
	1,955,887	1,881,356
Interest expense on:		
Deposits from banks and financial institutions	**19,823**	10,003
Deposits from customers	**522,270**	425,878
Bank loans	**49,817**	43,032
Others	**3,705**	–
	595,615	478,913

Interest income and interest expense for the year ended 31 December 2019, calculated using the effective interest method for financial assets and financial liabilities which are not designated at FVPL, amounted to HK$1,955,887,000 and HK$595,615,000 (2018: HK$1,881,356,000 and HK$478,913,000) respectively. Interest income on the impaired loans and advances for the year ended 31 December 2019 amounted to HK$11,193,000 (2018: HK$10,950,000).

9. OTHER OPERATING INCOME

	2019 HK$'000	2018 HK$'000
Fees and commission income:		
Retail and commercial banking and other businesses	**146,635**	153,971
Wealth management services, stockbroking and securities management	**52,781**	46,334
	199,416	200,305
Less: Fees and commission expenses	**(2,004)**	(1,363)
Net fees and commission income	**197,412**	198,942
Gross rental income	**15,551**	18,287
Less: Direct operating expenses	**(77)**	(81)
Net rental income	**15,474**	18,206
Gains less losses arising from dealing in foreign currencies	**18,149**	16,141
Net gains/(losses) on derivative financial instruments	**10,794**	(4,734)
	28,943	11,407
Net (losses)/gains on disposal of property and equipment	**(101)**	4
Gain on termination of leases	**1,212**	–
Dividend income from listed investments	**103**	118
Dividend income from unlisted investments	**35**	700
Others	**2,041**	1,677
	245,119	231,054

Direct operating expenses included repairs and maintenance expenses arising from investment properties.

There were no net gains or losses arising from equity investments at FVOCI, loans and advances and receivables, financial assets and liabilities measured at amortised cost and financial assets and liabilities designated at FVPL for the years ended 31 December 2019 and 31 December 2018.

All fees and commission income and expenses are related to financial assets or financial liabilities which are not designated at FVPL. No fees and commission income and expenses are related to trust and other fiduciary activities.

Notes to Financial Statements

10. OPERATING EXPENSES

	Notes	2019 HK$'000	2018 HK$'000
Staff costs:			
Salaries and other staff costs		**528,452**	522,074
Pension contributions		**24,786**	24,261
Less: Forfeited contributions		**(158)**	(35)
Net contribution to retirement benefit schemes		**24,628**	24,226
		553,080	546,300
Other operating expenses:			
Operating lease rentals on leasehold buildings		**–**	67,139
Depreciation of right-of-use assets	25	**66,605**	–
Depreciation of property and equipment and land held under finance leases	23, 24	**35,000**	32,349
Auditors' remuneration		**4,258**	4,263
Administrative and general expenses		**82,532**	78,293
Others		**143,979**	142,584
Operating expenses before changes in fair value of investment properties		**885,454**	870,928

As at 31 December 2019 and 31 December 2018, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The credits for the years ended 31 December 2019 and 31 December 2018 arose in respect of staff who left the schemes during the years.

11. CREDIT LOSS EXPENSES

The following table shows the changes in ECL on financial instruments for the years recorded in the consolidated income statement.

	2019 12-month expected credit loss (Stage 1) HK$'000	Lifetime expected credit loss not credit impaired (Stage 2) HK$'000	Lifetime expected credit loss credit impaired (Stage 3) HK$'000	Total HK$'000
Net charge for/(write-back of) credit loss expenses:				
– loans and advances	**2,514**	**8,355**	**211,135**	**222,004**
– trade bills, accrued interest and other receivables	**32**	**22**	**66**	**120**
– cash and short term placements	**40**	**–**	**–**	**40**
– placements with banks and financial institutions	**(3)**	**–**	**–**	**(3)**
– held-to-collect debt securities at amortised cost	**(13)**	**–**	**–**	**(13)**
– loan commitments	**(30)**	**–**	**–**	**(30)**
– financial guarantees and letters of credit	**–**	**–**	**–**	**–**
	2,540	**8,377**	**211,201**	**222,118**

	2018 12-month expected credit loss (Stage 1) HK$'000	Lifetime expected credit loss not credit impaired (Stage 2) HK$'000	Lifetime expected credit loss credit impaired (Stage 3) HK$'000	Total HK$'000
Net charge for/(write-back of) credit loss expenses:				
– loans and advances	2,216	(3,471)	163,758	162,503
– trade bills, accrued interest and other receivables	(26)	(8)	(340)	(374)
– cash and short term placements	(91)	–	–	(91)
– placements with banks and financial institutions	5	–	–	5
– held-to-collect debt securities at amortised cost	53	–	–	53
– loan commitments	(45)	–	–	(45)
– financial guarantees and letters of credit	(5)	–	–	(5)
	2,107	(3,479)	163,418	162,046

Notes to Financial Statements

12. DIRECTORS' REMUNERATION

The remuneration of each Director for the years ended 31 December 2019 and 31 December 2018, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is set out below:

	2019				
Name of Directors	Fees	Salaries and other benefits (Note 1)	Bonuses	Retirement benefit contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Tan Sri Dato' Sri Dr. Teh Hong Piow	650	–	–	–	650
Lai Wan	405	–	–	–	405
Tan Yoke Kong (Note 2)	200	2,553	1,070	293	4,116
Chong Yam Kiang	200	2,221	689	129	3,239
Lee Huat Oon	100	2,119	593	212	3,024
Quah Poh Keat	400	–	–	–	400
Dato' Chang Kat Kiam	300	–	–	–	300
Lee Chin Guan	405	–	–	–	405
Tang Wing Chew	405	–	–	–	405
	3,065	6,893	2,352	634	12,944

12. DIRECTORS' REMUNERATION (Continued)

			2018		
Name of Directors	Fees	Salaries and other benefits (Note 1)	Bonuses	Retirement benefit contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Tan Sri Dato' Sri Dr. Teh Hong Piow	650	–	–	–	650
Lai Wan	405	–	–	–	405
Tan Yoke Kong (Note 2)	200	2,432	1,012	268	3,912
Chong Yam Kiang	200	2,123	656	122	3,101
Lee Huat Oon	100	1,928	671	213	2,912
Quah Poh Keat	400	–	–	–	400
Dato' Chang Kat Kiam	300	–	–	–	300
Lee Chin Guan	405	–	–	–	405
Tang Wing Chew	405	–	–	–	405
	3,065	6,483	2,339	603	12,490

Notes:

1. Salaries and other benefits included basic salaries, housing allowances, other allowances, benefits in kind and share option benefits. No share option benefits were paid in 2019 (2018: Nil).

2. The Director occupies a property of the Group at rent free. The estimated monetary value of the accommodation provided to him during the year which was not charged to the consolidated income statement was HK$913,920 (2018: HK$913,920).

Notes to Financial Statements

13. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included three (2018: three) Directors, details of whose remuneration are set out in note 12 above.

Details of the remaining two (2018: two) highest paid individuals' remuneration are as follows:

	2019 HK$'000	2018 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**3,766**	3,664
Bonuses paid and payable	**578**	561
Retirement benefit scheme contributions	**203**	194
	4,547	4,419

The number of highest paid individuals whose remuneration fell within the band set out below is as follows:

	2019 Number of individuals	2018 Number of individuals
HK$2,000,001 – HK$2,500,000	**2**	2
	2	2

14. TAX

	Notes	**2019 HK$'000**	2018 HK$'000
Current tax charge:			
Hong Kong		**58,918**	84,661
Overseas		**24,248**	23,964
Over-provision in prior years		**(920)**	(500)
Deferred tax charge, net	32	**11,793**	3,599
		94,039	111,724

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

14. TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. statutory tax rates) to the effective tax rates, are as follows:

	2019					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	**462,921**		**97,458**		**560,379**	
Tax at the applicable tax rate	**76,382**	**16.5**	**24,364**	**25.0**	**100,746**	**18.0**
Estimated tax losses not recognised	**–**	**–**	**–**	**–**	**–**	**–**
Estimated tax effect of net (income)/expenses that are not (taxable)/deductible	**(5,791)**	**(1.2)**	**4**	**–**	**(5,787)**	**(1.0)**
Adjustments in respect of current tax of previous periods	**(920)**	**(0.2)**	**–**	**–**	**(920)**	**(0.2)**
Tax charge at the Group's effective rate	**69,671**	**15.1**	**24,368**	**25.0**	**94,039**	**16.8**

	2018					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	520,817		101,385		622,202	
Tax at the applicable tax rate	85,936	16.5	25,346	25.0	111,282	17.9
Estimated tax losses not recognised	5	–	–	–	5	–
Estimated tax effect of net expenses that are not deductible	936	0.2	1	–	937	0.2
Adjustments in respect of current tax of previous periods	(500)	(0.1)	–	–	(500)	(0.1)
Tax charge at the Group's effective rate	86,377	16.6	25,347	25.0	111,724	18.0

Notes to Financial Statements

15. DIVIDENDS

(a) Dividends attributable during the year

	2019 HK$ per ordinary share	2018 HK$ per ordinary share	**2019 HK$'000**	2018 HK$'000
First interim dividend declared and paid	**0.05**	0.05	**54,896**	54,896
Second interim dividend declared	**0.15**	0.17	**164,688**	186,646
	0.20	0.22	**219,584**	241,542

(b) Dividends attributable to the previous financial year and paid during the year

	2019 HK$ per ordinary share	2018 HK$ per ordinary share	**2019 HK$'000**	2018 HK$'000
Second interim dividend in respect of the previous year	**0.17**	0.16	**186,646**	175,667

16. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit for the year of HK$466,340,000 (2018: HK$510,478,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2018: 1,097,917,618) during the year.

(b) Diluted earnings per share

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 31 December 2018.

17. CASH AND SHORT TERM PLACEMENTS

	2019 HK$'000	2018 HK$'000
Cash on hand	**239,744**	166,661
Placements with banks and financial institutions	**888,982**	943,455
Money at call and short notice	**3,316,134**	2,844,036
Gross cash and short term placements	**4,444,860**	3,954,152
Less: Impairment allowances collectively assessed		
As at 1 January 2019 and 2018	**(379)**	(470)
Credit loss expenses (charged)/released to the consolidated income statement during the year	**(40)**	91
	(419)	(379)
Cash and short term placements	**4,444,441**	3,953,773

Over 90% (31 December 2018: over 90%) of the placements were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's.

There were no overdue or rescheduled placements with banks and financial institutions and no impairment allowances specifically assessed for such placements accordingly.

18. PLACEMENTS WITH BANKS AND FINANCIAL INSTITUTIONS MATURING AFTER ONE MONTH BUT NOT MORE THAN TWELVE MONTHS

	2019 HK$'000	2018 HK$'000
Gross placements with banks and financial institutions	**1,532,689**	1,556,498
Less: Impairment allowances collectively assessed		
As at 1 January 2019 and 2018	**(156)**	(151)
Credit loss expenses released/(charged) to the consolidated income statement during the year	**3**	(5)
	(153)	(156)
Placements with banks and financial institutions	**1,532,536**	1,556,342

Over 90% (31 December 2018: over 90%) of the placements maturing after one month but not more than twelve months were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's.

There were no overdue or rescheduled placements with banks and financial institutions maturing after one month but not more than twelve months and no impairment allowances specifically assessed for such placements accordingly.

Notes to Financial Statements

19. LOANS AND ADVANCES AND RECEIVABLES

	2019 HK$'000	2018 HK$'000
Loans and advances to customers	**28,720,607**	29,945,241
Trade bills	**34,195**	29,724
Loans and advances, and trade bills	**28,754,802**	29,974,965
Accrued interest	**78,340**	78,371
	28,833,142	30,053,336
Other receivables	**16,257**	18,819
Gross loans and advances and receivables	**28,849,399**	30,072,155
Less: Impairment allowances*		
– specifically assessed	**(69,083)**	(56,106)
– collectively assessed	**(149,363)**	(138,470)
	(218,446)	(194,576)
Loans and advances and receivables	**28,630,953**	29,877,579

Over 90% (31 December 2018: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (31 December 2018: over 90%) of the collateral for the secured loans and advances and receivables were customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

* The balances also include the impairment allowances of HK$72,000 and HK$102,000 on off-balance sheet credit exposures as at 31 December 2019 and 31 December 2018 respectively.

Loans and advances and receivables are summarised as follows:

	2019 HK$'000	2018 HK$'000
Neither past due nor impaired loans and advances and receivables	**28,109,726**	29,424,485
Past due but not impaired loans and advances and receivables	**542,502**	449,145
Credit impaired loans and advances	**192,737**	195,687
Credit impaired receivables	**4,434**	2,838
Gross loans and advances and receivables	**28,849,399**	30,072,155

About 63% (31 December 2018: 61%) of "Neither past due nor impaired loans and advances and receivables" were property mortgage loans and hire purchase loans secured by properties, taxi licences, public light bus licences and vehicles.

19. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(a) (i) Ageing analysis of overdue and impaired loans and advances

	2019 Gross amount HK$'000	2019 Percentage of total loans and advances %	2018 Gross amount HK$'000	2018 Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	**69,725**	**0.24**	93,214	0.31
One year or less but over six months	**10,869**	**0.04**	12,453	0.04
Over one year	**30,646**	**0.11**	4,424	0.02
Loans and advances overdue for more than three months	**111,240**	**0.39**	110,091	0.37
Rescheduled loans and advances overdue for three months or less	**67,422**	**0.23**	67,162	0.22
Impaired loans and advances overdue for three months or less	**14,075**	**0.05**	18,434	0.06
Total overdue and impaired loans and advances	**192,737**	**0.67**	195,687	0.65

(ii) Ageing analysis of overdue and impaired trade bills, accrued interest and other receivables

	2019 HK$'000	2018 HK$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**430**	1,647
One year or less but over six months	**562**	472
Over one year	**3,265**	288
Trade bills, accrued interest and other receivables overdue for more than three months	**4,257**	2,407
Impaired trade bills, accrued interest and other receivables overdue for three months or less	**177**	431
Total overdue and impaired trade bills, accrued interest and other receivables	**4,434**	2,838

Impaired loans and advances and receivables are individually determined to be impaired after considering the overdue ageing analysis and other qualitative factors such as bankruptcy proceedings and individual voluntary arrangements.

19. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(b) Geographical analysis of overdue and impaired loans and advances and receivables, and impairment allowances

	2019 Hong Kong HK$'000	2019 Mainland China HK$'000	2019 Total HK$'000	2018 Hong Kong HK$'000	2018 Mainland China HK$'000	2018 Total HK$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	**75,678**	**39,819**	**115,497**	83,834	28,664	112,498
Impairment allowances specifically assessed	**46,187**	**4**	**46,191**	40,108	3	40,111
Current market value and fair value of collateral			**87,374**			118,970
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**157,352**	**39,819**	**197,171**	161,622	36,903	198,525
Impairment allowances specifically assessed	**69,079**	**4**	**69,083**	56,102	4	56,106
Current market value and fair value of collateral			**117,829**			157,257

Over 90% (31 December 2018: over 90%) of the Group's gross loans and advances and receivables were derived from operations carried out in Hong Kong. Accordingly, no geographical segment information of gross loans and advances and receivables is presented herein.

(c) The value of collateral held in respect of the overdue loans and advances and the split between the portion of the overdue loans and advances covered by credit protection (covered portion) and the remaining portion (uncovered portion) are as follows:

	2019 HK$'000	2018 HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**87,374**	118,970
Covered portion of overdue loans and advances	**50,011**	58,172
Uncovered portion of overdue loans and advances	**61,229**	51,919

19. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(c) The value of collateral held in respect of the overdue loans and advances and the split between the portion of the overdue loans and advances covered by credit protection (covered portion) and the remaining portion (uncovered portion) are as follows: (Continued)

The assets taken as collateral should satisfy the following criteria:

– The market value of the asset is readily determinable or can be reasonably established and verified.

– The asset is marketable and there exists a readily available secondary market for disposal of the asset.

– The Group's right to repossess the asset is legally enforceable without impediment.

– The Group is able to secure control over the asset if necessary.

The main types of guarantors for credit risk mitigation are as follows:

– Central governments with a grading of Aa3 or above

– Unrated public sector enterprises

– Banks with a grading of Baa2 or above

– Unrated corporations

– Individual shareholders and directors of corporate customers

(d) Repossessed assets

As at 31 December 2019, the total value of repossessed assets of the Group amounted to HK$10,170,000 (31 December 2018: HK$33,160,000).

(e) Past due but not impaired loans and advances and receivables

	2019		2018	
	Gross amount HK$'000	**Percentage of total loans and advances %**	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for three months or less	**539,581**	**1.88**	446,235	1.49
Trade bills, accrued interest and other receivables overdue for three months or less	**2,921**		2,910	

19. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(f) Impairment allowances on loans and advances and receivables and off-balance sheet credit exposures

An analysis of changes in the gross amount of loans and advances and receivables is as follows:

	2019			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Gross loans and advances and receivables as at 1 January 2019	29,701,281	172,349	198,525	30,072,155
New loans/financing originated	8,290,617	142	1,325	8,292,084
Loans/financing derecognised or repaid during the year (other than write-offs)	(9,112,871)	(40,771)	(43,947)	(9,197,589)
Transfer to 12-month expected credit loss (Stage 1)	51,973	(25,148)	(26,825)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(176,976)	186,288	(9,312)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(351,223)	(43,433)	394,656	–
Total transfer between stages	(476,226)	117,707	358,519	–
Write-offs	–	–	(317,251)	(317,251)
As at 31 December 2019	28,402,801	249,427	197,171	28,849,399
Arising from:				
Loans and advances	28,280,321	247,549	192,737	28,720,607
Trade bills, accrued interest and other receivables	122,480	1,878	4,434	128,792
	28,402,801	249,427	197,171	28,849,399

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK$254,695,000.

19. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(f) Impairment allowances on loans and advances and receivables and off-balance sheet credit exposures (Continued)

	2018			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Gross loans and advances and receivables as at 1 January 2018	29,326,385	183,647	157,084	29,667,116
New loans/financing originated	10,056,861	99	806	10,057,766
Loans/financing derecognised or repaid during the year (other than write-offs)	(9,263,819)	(42,384)	(45,329)	(9,351,532)
Transfer to 12-month expected credit loss (Stage 1)	58,413	(28,434)	(29,979)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(120,751)	123,207	(2,456)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(355,808)	(63,786)	419,594	–
Total transfer between stages	(418,146)	30,987	387,159	–
Write-offs	–	–	(301,195)	(301,195)
As at 31 December 2018	29,701,281	172,349	198,525	30,072,155
Arising from:				
Loans and advances	29,578,369	171,185	195,687	29,945,241
Trade bills, accrued interest and other receivables	122,912	1,164	2,838	126,914
	29,701,281	172,349	198,525	30,072,155

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK$241,201,000.

Notes to Financial Statements

19. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(f) Impairment allowances on loans and advances and receivables and off-balance sheet credit exposures (Continued)

An analysis of credit risk exposure by the Group's internal credit rating system is as follows:

	2019			
	Stage 1 HK$'000	**Stage 2 HK$'000**	**Stage 3 HK$'000**	**Total HK$'000**
Internal rating grades:				
Performing				
Pass	**28,229,561**	**–**	**–**	**28,229,561**
Special Mention	**173,240**	**249,427**	**–**	**422,667**
Non-performing				
Substandard	**–**	**–**	**134,448**	**134,448**
Doubtful	**–**	**–**	**50,870**	**50,870**
Loss	**–**	**–**	**11,853**	**11,853**
Total	**28,402,801**	**249,427**	**197,171**	**28,849,399**

	2018			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Internal rating grades:				
Performing				
Pass	29,582,035	–	–	29,582,035
Special Mention	119,246	172,349	–	291,595
Non-performing				
Substandard	–	–	128,919	128,919
Doubtful	–	–	64,829	64,829
Loss	–	–	4,777	4,777
Total	29,701,281	172,349	198,525	30,072,155

19. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(f) Impairment allowances on loans and advances and receivables and off-balance sheet credit exposures (Continued)

An analysis of changes in the corresponding ECL allowances is as follows:

	2019 Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
As at 1 January 2019	108,901	29,569	56,106	194,576
New loans/financing originated	78,392	–	34	78,426
Loans/financing derecognised or repaid during the year (other than write-offs)	(70,368)	(5,788)	(125,890)	(202,046)
Transfer to 12-month expected credit loss (Stage 1)	3,486	(532)	(2,954)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(2,374)	2,697	(323)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(9,708)	(23,109)	32,817	–
Total transfer between stages	(8,596)	(20,944)	29,540	–
Impact on year end expected credit loss of exposures transferred between stages during the year	(413)	35,109	282,289	316,985
Movements due to changes in credit risk	3,501	–	25,228	28,729
Recoveries	–	–	119,027	119,027
Write-offs	–	–	(317,251)	(317,251)
Exchange differences	–	–	–	–
As at 31 December 2019	111,417	37,946	69,083	218,446
Arising from:				
Loans and advances	109,604	37,921	68,952	216,477
Trade bills, accrued interest and other receivables	1,741	25	131	1,897
Loan commitments	69	–	–	69
Financial guarantees and letters of credit	3	–	–	3
	111,417	37,946	69,083	218,446

Notes to Financial Statements

19. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(f) Impairment allowances on loans and advances and receivables and off-balance sheet credit exposures (Continued)

	2018			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
As at 1 January 2018	106,767	33,048	57,923	197,738
New loans/financing originated	79,875	–	27	79,902
Loans/financing derecognised or repaid during the year (other than write-offs)	(69,595)	(7,773)	(146,682)	(224,050)
Transfer to 12-month expected credit loss (Stage 1)	4,070	(990)	(3,080)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(1,921)	2,245	(324)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(8,888)	(23,613)	32,501	–
Total transfer between stages	(6,739)	(22,358)	29,097	–
Impact on year end expected credit loss of exposures transferred between stages during the year	(2,019)	26,651	259,616	284,248
Movements due to changes in credit risk	618	1	21,360	21,979
Recoveries	–	–	135,960	135,960
Write-offs	–	–	(301,195)	(301,195)
Exchange differences	(6)	–	–	(6)
As at 31 December 2018	108,901	29,569	56,106	194,576
Arising from:				
Loans and advances	107,090	29,566	56,041	192,697
Trade bills, accrued interest and other receivables	1,709	3	65	1,777
Loan commitments	99	–	–	99
Financial guarantees and letters of credit	3	–	–	3
	108,901	29,569	56,106	194,576

19. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(g) Finance lease receivables

Included in loans and advances and receivables were receivables in respect of assets leased under finance leases as set out below:

	2019 Minimum lease payments	2018 Minimum lease payments	2019 Present value of minimum lease payments	2018 Present value of minimum lease payments
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts receivable under finance leases:				
Within one year	**435,909**	405,397	**307,461**	284,240
In the second to fifth years, inclusive	**1,287,254**	1,213,656	**900,142**	839,341
Over five years	**4,303,929**	4,296,324	**3,529,219**	3,525,992
	6,027,092	5,915,377	**4,736,822**	4,649,573
Less: Unearned finance income	**(1,290,270)**	(1,265,804)		
Present value of minimum lease payments receivables	**4,736,822**	4,649,573		

The Group has entered into finance lease arrangements with customers in respect of motor vehicles and equipment. The terms of the finance leases entered into range from 1 to 25 years.

20. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Below is an analysis of the Group's equity investments other than those measured at FVPL:

	2019 HK$'000	2018 HK$'000
Unlisted equity investments in corporate entity, at fair value:		
At the beginning and the end of the year	**6,804**	6,804

The unlisted investments issued by corporate entity are measured at fair value based on the present value of expected cash flows in the foreseeable future.

Notes to Financial Statements

21. HELD-TO-COLLECT DEBT SECURITIES AT AMORTISED COST

	2019 HK$'000	2018 HK$'000
Certificates of deposit held	**2,212,500**	2,269,082
Treasury bills and government bonds (including Exchange Fund Bills)	**2,473,783**	2,307,321
Other debt securities	**1,393,087**	1,627,169
Gross held-to-collect debt securities at amortised cost	**6,079,370**	6,203,572
Less: Impairment allowances collectively assessed		
As at 1 January 2019 and 2018	**(623)**	(570)
Credit loss expenses released/(charged) to the consolidated income statement during the year	**13**	(53)
	(610)	(623)
	6,078,760	6,202,949
Listed or unlisted:		
– Listed in Hong Kong	**1,112,965**	1,785,576
– Listed outside Hong Kong	**126,267**	189,670
– Unlisted	**4,840,138**	4,228,326
	6,079,370	6,203,572
Analysed by type of issuers:		
– Central governments	**2,473,783**	2,307,321
– Public sector entities	**199,982**	299,914
– Banks and other financial institutions	**3,405,605**	3,596,337
	6,079,370	6,203,572

There were no impairment allowances specifically assessed made against held-to-collect debt securities at amortised cost as at 31 December 2019 and 31 December 2018.

There were neither impaired nor overdue held-to-collect debt securities at amortised cost as at 31 December 2019 and 31 December 2018.

All exposures attributed to the held-to-collect debt securities at amortised cost were rated with a grading of A3 or above based on the credit rating of Moody's as at 31 December 2019 and 31 December 2018.

22. INVESTMENT PROPERTIES

	HK$'000
At valuation:	
As at 1 January 2018	328,739
Transfer to property and equipment	(2,230)
Transfer to land held under finance leases	(50,520)
Addition	47,100
Transfer from property and equipment	54
Transfer from land held under finance leases	893
Changes in fair value recognised in the consolidated income statement	21,679
As at 31 December 2018 and 1 January 2019	**345,715**
Transfer to property and equipment	**(1,618)**
Transfer to land held under finance leases	**(31,037)**
Transfer from property and equipment	**515**
Transfer from land held under finance leases	**11,199**
Changes in fair value recognised in the consolidated income statement	**62,560**
Changes in fair value recognised in the consolidated statement of comprehensive income	**3,982**
As at 31 December 2019	**391,316**

The Group's investment properties are situated in Hong Kong and are held under medium-term and long-term leases in Hong Kong.

All investment properties were classified under Level 3 in the fair value hierarchy. During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (31 December 2018: Nil). The Group has assessed that the highest and best use of its properties did not differ from their existing use.

As at 31 December 2019, investment properties were revalued according to the revaluation reports issued by C S Surveyors Limited, a firm of independent professionally qualified valuers. Finance and Control Department has discussions with the valuer on the valuation methodology and valuation results at least twice a year when the valuation is performed for interim and annual financial reporting.

The fair value of investment properties located in Hong Kong is determined using the market comparison approach by reference to recent sales price of comparable properties on a price per square metre basis. Below is a summary of the significant inputs to the valuation of investment properties:

	2019		2018	
	Range HK$	**Weighted average HK$**	Range HK$	Weighted average HK$
Price per square metre	**32,000 to 581,000**	**210,000**	31,000 to 527,000	197,000

A significant increase/decrease in the price per square metre would result in a significant increase/decrease in the fair value of the investment properties.

The investment properties held by the Group are let under operating leases from which the Group earns rental income. Details of future annual rental receivables under operating leases are included in note 35(a) to the financial statements.

Notes to Financial Statements

23. PROPERTY AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
As at 1 January 2018	80,385	269,736	2,098	352,219
Transfer to investment properties	(77)	–	–	(77)
Transfer from investment properties	2,230	–	–	2,230
Additions	–	34,451	325	34,776
Disposals/write-off	–	(6,029)	(139)	(6,168)
As at 31 December 2018 and 1 January 2019	**82,538**	**298,158**	**2,284**	**382,980**
Transfer to investment properties	**(638)**	**–**	**–**	**(638)**
Transfer from investment properties	**1,618**	**–**	**–**	**1,618**
Additions	**–**	**49,109**	**180**	**49,289**
Disposals/write-off	**–**	**(5,527)**	**(150)**	**(5,677)**
As at 31 December 2019	**83,518**	**341,740**	**2,314**	**427,572**
Accumulated depreciation:				
As at 1 January 2018	25,628	192,001	2,011	219,640
Provided during the year	1,698	22,677	52	24,427
Transfer to investment properties	(23)	–	–	(23)
Disposals/write-off	–	(6,015)	(139)	(6,154)
As at 31 December 2018 and 1 January 2019	**27,303**	**208,663**	**1,924**	**237,890**
Provided during the year	**1,683**	**25,332**	**110**	**27,125**
Transfer to investment properties	**(123)**	**–**	**–**	**(123)**
Disposals/write-off	**–**	**(5,339)**	**(150)**	**(5,489)**
As at 31 December 2019	**28,863**	**228,656**	**1,884**	**259,403**
Net carrying amount:				
As at 31 December 2019	**54,655**	**113,084**	**430**	**168,169**
As at 31 December 2018	55,235	89,495	360	145,090

There were no impairment allowances made against the above items of property and equipment as at 31 December 2019 and 31 December 2018. There were no movements in impairment allowances for the years ended 31 December 2019 and 31 December 2018.

24. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
As at 1 January 2018	747,415
Transfer to investment properties	(1,282)
Transfer from investment properties	50,520
As at 31 December 2018 and 1 January 2019	**796,653**
Transfer to investment properties	**(12,262)**
Transfer from investment properties	**31,037**
As at 31 December 2019	**815,428**
Accumulated depreciation and impairment:	
As at 1 January 2018	113,047
Transfer to investment properties	(389)
Depreciation provided during the year	7,922
As at 31 December 2018 and 1 January 2019	**120,580**
Transfer to investment properties	**(1,063)**
Depreciation provided during the year	**7,875**
As at 31 December 2019	**127,392**
Net carrying amount:	
As at 31 December 2019	**688,036**
As at 31 December 2018	676,073

The Group's land held under finance leases at net carrying amount is held under the following lease terms:

	2019 HK$'000	2018 HK$'000
Leaseholds:		
Held in Hong Kong		
– On long-term leases	**484,675**	463,547
– On medium-term leases	**186,473**	194,870
Held outside Hong Kong		
– On medium-term leases	**16,888**	17,656
	688,036	676,073

Land leases are stated at the recoverable amount and are subject to an impairment test pursuant to HKAS 36, which is based on the higher of fair value less costs of disposal and value-in-use.

Notes to Financial Statements

25. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

Right-of-use assets:

	Land and Buildings HK$'000
Cost:	
As at 31 December 2018 (Reported)	–
Impact of adopting HKFRS 16	239,737
Restated opening balance under HKFRS 16 as at 1 January 2019	239,737
Addition	66,588
Reassessment	(3,859)
Written off	(46,905)
As at 31 December 2019	255,561
Accumulated depreciation and impairment:	
As at 31 December 2018 (Reported)	–
Impact of adopting HKFRS 16	(106,992)
Restated opening balance under HKFRS 16 as at 1 January 2019	(106,992)
Depreciation provided during the year	(66,605)
Written off	46,905
Exchange difference	(201)
As at 31 December 2019	(126,893)
Net carrying amount:	
As at 31 December 2019	128,668

Set out below are the carrying amounts of lease liabilities and the movements during the year:

Lease liabilities:

	Land and Buildings HK$'000
As at 31 December 2018 (Reported)	–
Impact of adopting HKFRS 16	136,089
Restated opening balance under HKFRS 16 as at 1 January 2019	136,089
Additions	65,237
Interest expense	3,598
Payments	(67,909)
Reassessment	(3,851)
Exchange difference	(220)
As at 31 December 2019	132,944

The maturity analysis of lease liabilities is disclosed in note 39 to the financial statements.

25. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Continued)

The following are the amounts recognised in profit or loss:

	2019 HK$'000
Depreciation expense of right-of-use assets	66,605
Interest expense on lease liabilities	3,598
Expense relating to short-term leases	48
Expense relating to leases of low-value assets	2,151
	72,402

The Group had total cash outflows for leases of HK$67,909,000 in 2019. The future cash outflows relating to leases committed but not yet commenced are disclosed in note 35 to the financial statements.

26. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	2019 HK$'000	2018 HK$'000
Interest receivables from financial institutions	36,040	45,750
Other debtors, deposits and prepayments	235,574	99,609
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	55,744	20,984
	327,358	166,343

There were no other overdue or rescheduled assets, and no impairment allowances for such other assets accordingly.

Other liabilities

	2019 HK$'000	2018 HK$'000
Creditors, accruals and other payables	419,496	254,345
Interest payable	164,048	189,149
Net amount of accounts payable to HKSCC	7,835	12,369
	591,379	455,863

Public Financial Securities Limited and Public Securities Limited maintain accounts with HKSCC through which they conduct securities trading transactions and settlement on a net basis.

Notes to Financial Statements

26. OTHER ASSETS AND OTHER LIABILITIES (Continued)

In presenting the amounts due from and to HKSCC, the individual subsidiaries concerned have offset the gross amount of the accounts receivable from and the gross amount of the accounts payable to HKSCC. The amounts offset and the net balances are shown as follows:

	Gross amount HK$'000	Amount offset HK$'000	Net amount HK$'000
Other assets			
2019			
Amount of accounts receivable from HKSCC	**253,091**	**(197,347)**	**55,744**
2018			
Amount of accounts receivable from HKSCC	58,674	(37,690)	20,984
Other liabilities			
2019			
Amount of accounts payable to HKSCC	**(205,182)**	**197,347**	**(7,835)**
2018			
Amount of accounts payable to HKSCC	(50,059)	37,690	(12,369)

27. GOODWILL

	2019 HK$'000	2018 HK$'000
Cost and net carrying amount:		
At the beginning and the end of the year	**2,774,403**	2,774,403

Impairment test of goodwill

There are two CGUs, namely Public Bank (Hong Kong) and Public Finance, which represent the main operating entities within the business segment "Retail and commercial banking businesses" identified by the Group. Goodwill acquired through business combinations is allocated on a pro-rata basis to the two CGUs based on the ratio of the recoverable amount of a CGU to those of the other CGU at the date of acquisition. The recoverable amounts of the CGUs at each subsequent reporting date are determined based on the value-in-use using the present value of cash flows taking into account the expected operating synergy and profitability and growth of businesses arising from the acquisition of Public Bank (Hong Kong) and its subsidiaries. The cash flow projections are based on financial budgets approved by management covering a 10-year period and assumed growth rates are used to extrapolate the cash flows in the following 40 years. The financial budgets are prepared based on a 10-year business plan which is appropriate after considering the sustainability of business growth, stability of core business developments, long-term economic cycle and achievement of business targets extrapolated from a track record of financial results. All cash flows are discounted at discount rates of 4% and 7% under baseline and stress scenarios, respectively. Management's financial model assumes an average growth rate of 3% to 6% per annum from the eleventh to fiftieth years taking into account long-term gross domestic product growth and other relevant economic factors. The discount rates used are based on the rates which reflect specific risks relating to the CGUs.

No impairment loss has been recognised in respect of goodwill for the years ended 31 December 2019 and 31 December 2018 as its value-in-use exceeded its carrying amount.

28. INTANGIBLE ASSETS

	2019 HK$'000	2018 HK$'000
Cost:		
At the beginning and the end of the year	**1,085**	1,085
Accumulated impairment:		
At the beginning and the end of the year	**367**	367
Net carrying amount:		
At the beginning and the end of the year	**718**	718

Intangible assets represent trading rights held by the Group. The trading rights are retained for stock trading and stockbroking activities, and have indefinite useful lives as the trading rights have no expiry date. They comprise five units (31 December 2018: five units) of Stock Exchange Trading Right and one unit (31 December 2018: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

29. LOANS TO DIRECTORS

Loans to Directors disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Name of Directors	As at 31 December 2019 HK$'000	Maximum amount outstanding during the year HK$'000	As at 31 December 2018 and 1 January 2019 HK$'000	Maximum amount outstanding during the prior year HK$'000	As at 1 January 2018 HK$'000	Security held
Tan Yoke Kong	**1**	**296**	**87**	267	102	None
Chong Yam Kiang	**17**	**163**	**122**	192	32	None
	18		**209**		134	

The loans to Directors are granted on essentially the same terms as those offered to other customers, and/or at prevailing market rates and have no fixed terms of repayment.

The carrying amounts of these loans approximate to their fair values.

30. CUSTOMER DEPOSITS AT AMORTISED COST

	2019 HK$'000	2018 HK$'000
Demand deposits and current accounts	**4,704,152**	4,685,611
Savings deposits	**6,069,506**	6,803,555
Time, call and notice deposits	**23,143,767**	23,795,156
	33,917,425	35,284,322

31. UNSECURED BANK LOANS AT AMORTISED COST

	2019 HK$'000	2018 HK$'000
Unsecured bank loans	**1,542,693**	1,444,614
Repayable:		
On demand or within a period not exceeding one year	**450,000**	355,000
Within a period of more than two years but not exceeding five years	**1,092,693**	1,089,614
	1,542,693	1,444,614

The unsecured bank loans were denominated in HKD. Carrying amounts of the unsecured bank loans bore interest at floating interest rates and at prevailing market rates.

32. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets:

	Note	Impairment allowances for loans and advances and receivables HK$'000	Others HK$'000	Decelerated tax depreciation of property and equipment HK$'000	Total HK$'000
As at 1 January 2018		42,680	689	79	43,448
Deferred tax (charged)/credited to the consolidated income statement		(1,026)	139	59	(828)
Exchange difference		(1,256)	(26)	–	(1,282)
As at 31 December 2018 (Reported)		40,398	802	138	41,338
Impact of adopting of HKFRS 16	5	**–**	**1,301**	**–**	**1,301**
Restated opening balance under HKFRS 16 as at 1 January 2019		**40,398**	**2,103**	**138**	**42,639**
Deferred tax charged to the consolidated income statement		**(5,382)**	**(1,452)**	**(123)**	**(6,957)**
Exchange difference		**(440)**	**(9)**	**–**	**(449)**
As at 31 December 2019		**34,576**	**642**	**15**	**35,233**

32. DEFERRED TAX (Continued)

Deferred tax liabilities:

	Accelerated tax depreciation of property and equipment HK$'000
As at 1 January 2018	33,579
Deferred tax charged to the consolidated income statement	2,771
As at 31 December 2018 and 1 January 2019	**36,350**
Deferred tax charged to the consolidated income statement	**4,836**
As at 31 December 2019	**41,186**

The Group has tax losses arising in Hong Kong of HK$9,698,000 (31 December 2018: HK$34,280,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have incurred losses for some time and it is not considered probable that taxable profit will be available against which tax losses can be utilised.

There are no significant income tax consequences attaching to the payment of dividends by the Company to its shareholders.

33. SHARE CAPITAL

	2019 HK$'000	2018 HK$'000
Authorised: 2,000,000,000 (2018: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid: 1,097,917,618 (2018: 1,097,917,618) ordinary shares of HK$0.10 each	**109,792**	109,792

Notes to Financial Statements

34. RESERVES

	Notes	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Property revaluation reserve HK$'000	Regulatory reserve# HK$'000	Retained profits HK$'000	Translation reserve HK$'000	Total HK$'000
As at 1 January 2018		4,013,296	829	96,116	–	312,619	2,934,053	58,995	7,415,908
Profit for the year		–	–	–	–	–	510,478	–	510,478
Other comprehensive income		–	–	–	–	–	–	(46,826)	(46,826)
Transfer from regulatory reserve to retained profits		–	–	–	–	(16,079)	16,079	–	–
Dividends for 2018	15	–	–	–	–	–	(241,542)	–	(241,542)
As at 31 December 2018 and 1 January 2019		4,013,296	829	96,116	–	296,540	3,219,068	12,169	7,638,018
Impact of adopting HKFRS 16	5	**-**	**-**	**-**	**-**	**-**	**(6,587)**	**-**	**(6,587)**
Restated opening balance under HKFRS 16 as at 1 January 2019		**4,013,296**	**829**	**96,116**	**-**	**296,540**	**3,212,481**	**12,169**	**7,631,431**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**466,340**	**-**	**466,340**
Other comprehensive income		**-**	**-**	**-**	**3,982**	**-**	**-**	**(14,575)**	**(10,593)**
Transfer from regulatory reserve to retained profits		**-**	**-**	**-**	**-**	**(88,805)**	**88,805**	**-**	**-**
Dividends for 2019	15	**-**	**-**	**-**	**-**	**-**	**(219,584)**	**-**	**(219,584)**
As at 31 December 2019		**4,013,296**	**829**	**96,116**	**3,982**	**207,735**	**3,548,042**	**(2,406)**	**7,867,594**

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation in September 1991 over the nominal value of the Company's shares issued in exchange therefor.

Deducted from the contributed surplus of the Group as at 31 December 2019 was positive goodwill of HK$98,406,000 (31 December 2018: HK$98,406,000), which arose from the acquisition of certain subsidiaries in prior years.

\# The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. It is held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to the HKMA's guidelines.

35. LEASES

(a) As lessor

The Group leases its investment properties in note 22 under operating lease arrangements, and the terms of the leases range from 1 to 3 years.

As at 31 December 2019 and 31 December 2018, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	2019 HK$'000	2018 HK$'000
Within one year	**10,222**	8,151
In the second to fifth years, inclusive	**4,975**	4,510
	15,197	12,661

(b) As lessee

The Group has entered into future lease arrangements with landlords, and the terms of the leases range from 2 to 10 years.

The Group has several lease contracts that include extension options. Management exercises significant judgement in determining whether these extension options are reasonably certain to be exercised (see note 6 to the financial statements). Upon adoption of HKFRS 16 and during the year ended 31 December 2019, management has considered to exercise all extension options available in the lease contracts which have commenced, and therefore, all future cash outflows to which the Group is potentially exposed have already been reflected in the measurement of lease liabilities.

The Group also has certain leases of storage room with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the "short-term lease" and "lease of low-value assets" recognition exemptions for these leases.

Notes to Financial Statements

35. LEASES (Continued)

(b) As lessee (Continued)

As at 31 December 2019, the Group had total future lease payments for leases committed but not yet commenced falling due as follows:

	2019 **HK$'000**
Within one year	**1,271**
In the second to fifth years, inclusive	**1,992**
	3,263

As at 31 December 2018, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	2018 HK$'000
Within one year	60,989
In the second to fifth years, inclusive	52,608
Over five years	316
	113,913

36. OFF-BALANCE SHEET EXPOSURE

(a) Contingent liabilities, commitments and derivatives

The following is a summary of the contractual amount of each significant class of contingent liabilities, commitments and derivatives of the Group outstanding at the end of the year:

	2019				
	Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	26,492	26,492	21,787	–	–
Transaction-related contingencies	8,410	4,204	775	–	–
Trade-related contingencies	9,507	1,901	1,811	–	–
Forward forward deposits placed	–	–	–	–	–
Forward asset purchases	–	–	–	–	–
	44,409	32,597	24,373	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	1,013,380	25,620	7,107	15,445	4,651
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	519	260	260	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,231,474	–	–	–	–
	4,289,782	58,477	31,740	15,445	4,651

	2019 Contractual amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	21,191

Notes to Financial Statements

36. OFF-BALANCE SHEET EXPOSURE (Continued)

(a) Contingent liabilities, commitments and derivatives (Continued)

	2018				
	Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	25,674	25,674	21,482	–	–
Transaction-related contingencies	7,249	3,624	–	–	–
Trade-related contingencies	34,272	6,854	6,559	–	–
Forward forward deposits placed	–	–	–	–	–
Forward asset purchases	–	–	–	–	–
	67,195	36,152	28,041	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	756,298	10,104	2,021	2,541	7,275
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	–	–	–	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,110,113	–	–	–	–
	3,933,606	46,256	30,062	2,541	7,275

	2018 Contractual amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	28,711

The corresponding ECLs for the outstanding off-balance sheet exposures are included in the analysis of changes in ECL allowances in note 19(f) to the financial statements.

36. OFF-BALANCE SHEET EXPOSURE (Continued)

(a) Contingent liabilities, commitments and derivatives (Continued)

The Group had not entered into any bilateral netting arrangements and accordingly the above amounts are shown on a gross basis. The credit risk-weighted amounts are calculated in accordance with the Capital Rules and guidelines issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities, commitments and derivatives.

As at 31 December 2019 and 31 December 2018, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

(b) Derivative financial instruments

The Group uses the following derivative financial instruments:

Currency forwards represent commitments to purchase foreign and domestic currencies, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell a foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of interest rates (for example, fixed rate or floating rate). No exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap the contracts if counterparties fail to perform their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as used for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risk. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

37. RELATED PARTY TRANSACTIONS

During the year, the Group had the following major transactions with related parties which were carried out on essentially the same terms and/or at prevailing market rates with other customers or suppliers:

	Notes	2019 HK$'000	2018 HK$'000
Related party transactions included in the consolidated income statement:			
Interest paid and payable to fellow subsidiaries and ultimate holding company	(b)	**13,116**	9,014
Commitment fee paid to the ultimate holding company	(f)	**3,978**	3,026
Key management personnel compensation:	(c)		
– short term employee benefits		**12,309**	11,887
– post-employment benefits		**634**	603
Interest paid to key management personnel	(b)	**25**	20
Commission income from key management personnel	(e)	**–**	6
Commission fees and services fees paid to fellow subsidiaries	(f)	**133**	145

	Notes	2019 HK$'000	2018 HK$'000
Related party transactions included in the consolidated statement of financial position:			
Cash and short term funds with the ultimate holding company	(a)	**120**	2,210
Deposits from the ultimate holding company and fellow subsidiaries	(b)	**13,739**	17,685
Bank loans from the ultimate holding company and a fellow subsidiary	(b)	**450,000**	355,000
Interest payable to the ultimate holding company and a fellow subsidiary	(b)	**572**	83
Loans to key management personnel	(d)	**18**	209
Deposits from key management personnel	(b)	**2,508**	1,812
Interest payable to key management personnel	(b)	**9**	3

37. RELATED PARTY TRANSACTIONS (Continued)

Notes:

(a) The Group placed deposits with Public Bank, the ultimate holding company, at prevailing market rates.

(b) The ultimate holding company, fellow subsidiaries, and key management personnel placed deposits with the Group at the prevailing market rates. Interest expenses were paid/payable by the Group for the year in respect of these placements. The balances were included in customer deposits in the consolidated statement of financial position. Bank loans were granted by Public Bank and Public Bank (L) Ltd, a fellow subsidiary, to the Group, and interest expenses were paid/payable by the Group for the year in respect of these loans.

(c) Further details of the Directors' remuneration are included in note 12 to the financial statements.

(d) The balance represented credit card receivables due from Directors of Public Bank (Hong Kong).

(e) During the year, commission income was received from key management personnel of the Group for securities dealings through Public Financial Securities Limited and Public Securities Limited.

(f) During the year, commitment fees were paid to Public Bank in order to obtain standby facilities granted by Public Bank to Public Bank (Hong Kong) and Public Finance.

During the year, commitment fee was paid to Public Bank (L) Ltd in order to obtain revolving credit facilities granted by Public Bank (L) Ltd to Public Securities Limited.

During the year, services fee was paid to Public Investment Berhad from Public Securities Limited for stock broking transaction.

In addition, certain banking facilities of the Group are supported by letters of comfort issued by the ultimate holding company.

None of these related party transactions constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial assets and financial liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values of financial instruments which are not carried at fair value in the financial statements.

Liquid or/and very short-term and variable rate financial instruments

Liquid or/and very short-term and variable rate financial instruments include loans and advances and receivables, held-to-collect debt securities at amortised cost, customer deposits, certificates of deposit issued and unsecured bank loans. As these financial instruments are liquid or have a short-term maturity or at variable rate, the carrying amounts are reasonable approximations of their fair values. In the case of loans and unquoted debt securities, their fair values do not reflect changes in their credit quality as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances.

Fixed rate financial instruments

Fixed rate financial instruments include placements with banks and financial institutions, loans and advances and receivables, held-to-collect debt securities at amortised cost, deposits from banks and other financial institutions, customer deposits and certificates of deposit issued. The fair values of these fixed rate financial instruments carried at amortised cost are based on prevailing money-market interest rates or current interest rates offered for similar financial instruments appropriate for the remaining term to maturity. The carrying amounts of such financial instruments are not materially different from their fair values.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(b) Financial assets and financial liabilities carried at fair value

The following table shows an analysis of financial instruments carried at fair value by level of the fair value hierarchy:

	2019			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets:				
Derivative financial instruments	**–**	**15,445**	**–**	**15,445**
Equity investments at fair value through other comprehensive income	**–**	**–**	**6,804**	**6,804**
	–	**15,445**	**6,804**	**22,249**
Financial liabilities:				
Derivative financial instruments	**–**	**4,651**	**–**	**4,651**

	2018			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets:				
Derivative financial instruments	–	2,541	–	2,541
Equity investments at fair value through other comprehensive income	–	–	6,804	6,804
	–	2,541	6,804	9,345
Financial liabilities:				
Derivative financial instruments	–	7,275	–	7,275

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(b) Financial assets and financial liabilities carried at fair value (Continued)

Level 2 financial instruments comprise forward foreign exchange contracts and currency swaps. These instruments have been measured at fair value based on the forward foreign exchange rates that are quoted in an active market. As at 31 December 2019 and 31 December 2018, the effects of discounting were considered insignificant for the Level 2 financial instruments.

Level 3 financial instruments are measured at fair value based on the present value of expected cash flows in the foreseeable future.

For financial instruments measured at fair value on a recurring basis, the Group determines whether transfer has occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. Finance and Control Department performs the valuation of financial instruments required for financial reporting purposes, including Level 3 fair values, at the end of each reporting period. The impact due to changes in fair value of Level 3 financial instruments is insignificant to the Group.

For the years ended 31 December 2019 and 31 December 2018, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the years ended 31 December 2019 and 31 December 2018, there were no issues and settlements related to the Level 3 financial instruments.

There was no gain or loss and no OCI reported in the consolidated income statement and consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the years ended 31 December 2019 and 31 December 2018.

For fair value measurement at Level 3, changing one or more of the inputs to the reasonably possible alternative assumptions would not change the fair value significantly.

39. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The tables below show an analysis of financial assets and financial liabilities (including key off-balance sheet items) analysed by principal according to the periods that they are expected to be recovered or settled.

	2019							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Gross cash and short term placements	1,128,726	3,316,134	–	–	–	–	–	4,444,860
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	1,158,967	373,722	–	–	–	1,532,689
Gross loans and advances and receivables	622,577	2,700,333	1,113,429	2,933,967	7,772,135	13,509,787	197,171	28,849,399
Equity investments at fair value through other comprehensive income	–	–	–	–	–	–	6,804	6,804
Gross held-to-collect debt securities at amortised cost	–	896,703	899,327	3,145,272	1,138,068	–	–	6,079,370
Other assets	227	226,216	18,484	48,690	5,314	–	28,427	327,358
Gross foreign exchange contracts	–	522,902	102,926	387,552	–	–	–	1,013,380
Total financial assets	1,751,530	7,662,288	3,293,133	6,889,203	8,915,517	13,509,787	232,402	42,253,860
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	161,350	535,885	90,000	–	–	–	–	787,235
Customer deposits at amortised cost	10,815,799	8,018,572	10,474,590	4,601,386	7,078	–	–	33,917,425
Unsecured bank loans at amortised cost	–	370,000	–	80,000	1,092,693	–	–	1,542,693
Lease liabilities	–	5,289	10,548	41,052	68,078	7,977	–	132,944
Other liabilities	3,098	276,801	88,347	33,425	113	–	189,595	591,379
Gross foreign exchange contracts	–	512,182	102,907	387,497	–	–	–	1,002,586
Total financial liabilities	10,980,247	9,718,729	10,766,392	5,143,360	1,167,962	7,977	189,595	37,974,262
Net liquidity gap	(9,228,717)	(2,056,441)	(7,473,259)	1,745,843	7,747,555	13,501,810	42,807	4,279,598

39. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

	2018							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Gross cash and short term placements	1,110,116	2,844,036	–	–	–	–	–	3,954,152
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	789,889	766,609	–	–	–	1,556,498
Gross loans and advances and receivables	1,110,127	3,357,657	960,785	2,973,979	6,730,206	14,740,876	198,525	30,072,155
Equity investments at fair value through other comprehensive income	–	–	–	–	–	–	6,804	6,804
Gross held-to-collect debt securities at amortised cost	–	618,823	1,080,279	2,607,993	1,896,477	–	–	6,203,572
Other assets	123	73,497	16,736	60,616	10,020	–	5,351	166,343
Gross foreign exchange contracts	–	666,893	89,405	–	–	–	–	756,298
Total financial assets	2,220,366	7,560,906	2,937,094	6,409,197	8,636,703	14,740,876	210,680	42,715,822
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	82,592	230,120	240,000	20,000	–	–	–	572,712
Customer deposits at amortised cost	11,516,233	7,227,387	8,656,581	7,252,688	631,433	–	–	35,284,322
Unsecured bank loans at amortised cost	–	355,000	–	–	1,089,614	–	–	1,444,614
Other liabilities	4,114	119,537	30,183	82,919	39,556	–	179,554	455,863
Gross foreign exchange contracts	–	669,297	91,735	–	–	–	–	761,032
Total financial liabilities	11,602,939	8,601,341	9,018,499	7,355,607	1,760,603	–	179,554	38,518,543
Net liquidity gap	(9,382,573)	(1,040,435)	(6,081,405)	(946,410)	6,876,100	14,740,876	31,126	4,197,279

40. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise customer deposits, bank loans, and deposits and balances of banks and other financial institutions. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as cash and short term placements, held-to-collect debt securities at amortised cost, loans and advances and receivables, and equity investments at FVOCI, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts held for trading. The purpose is to manage or mitigate currency risk arising from the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, market risk, credit risk, liquidity risk and operational risk.

The Group's business activities comprise retail and commercial banking services. These activities expose the Group to a variety of risk, mainly interest rate risk, market risk, credit risk, liquidity risk and operational risk. The respective Boards of Directors (the "Boards") of Public Bank (Hong Kong) and Public Finance review and approve policies for managing each of these risks and they are summarised below.

Risk management structure

The Group's risk management is underpinned by the Group's risk appetite and is subject to the respective Boards' oversight, through the Risk Management Committees ("RMCs") of Public Bank (Hong Kong) and Public Finance, which are Board Committees overseeing the establishment of enterprise-wide risk management policies and processes. The RMCs are assisted by the specific risk oversight committees including the Assets and Liabilities Management Committee ("ALCO"), Operational Risk Management Committee ("ORMC"), Credit Committee, Credit Risk Management Committee ("CRMC"), and Anti-Money Laundering and Counter-terrorist Financing and Compliance Committee or equivalent committees with similar functions of Public Bank (Hong Kong) and Public Finance.

The Group has established systems, policies and procedures for the control and monitoring of interest rate risk, market risk, credit risk, liquidity risk and operational risk, which are approved and endorsed by the respective Boards of Public Bank (Hong Kong) and Public Finance and reviewed regularly by their management, and other designated committees or working groups. Material risks are identified and assessed by designated committees and/or working groups before the launch of new products or business activities, and are monitored, documented and controlled against applicable risk limits after the introduction of new products or services or implementation of new business activities. Internal auditors of Public Bank (Hong Kong) and Public Finance also perform regular audits to ensure compliance with the policies and procedures.

Interest rate risk management

Interest rate risk in banking book ("IRRBB") is internally defined as current or prospective risk arising from adverse movements in market interest rates to the group's positions in the banking book. Changes in market interest rate affect economic value of interest bearing assets, liabilities and off-balance commitments and net interest income from such financial instruments. The primary objective of interest rate risk management is to minimise/contain the potential adverse effects of interest rate movements in economic value of equity ("EVE") and net interest income ("NII") by closely monitoring the net repricing gap of the Group's assets and liabilities.

The IRRBB comprises gap risk, basis risk and option risk. Gap risk arises from changes in interest rates on assets, liabilities and off-balance sheet positions of different maturity. Basis risk arises from imperfect correlation of timing between changes in the rates earned and paid on different instruments with otherwise similar repricing characteristics. Option risk arises from the optional elements embedded in the Group's assets and liabilities that provide the customer the right to prepay or early repay one's assets or liabilities such that cash flows related to such financial contracts are altered.

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

The Board of Directors is ultimately responsible for management of IRRBB and defines the overall risk appetite for management of IRRBB. The RMC is responsible for reviewing IRRBB policies, establishing risk limits in relation to EVE and NII in accordance with risk appetite and maintaining management oversight on IRRBB. The ALCO is responsible for identifying, measuring, evaluating, controlling and monitoring of IRRBB and ensuring the timely implementation of IRRBB management strategy by different departments and business lines in response to changing market conditions. Risk Management Department ("RMD") assesses, monitors and reports interest rate risk exposures daily against approved risk limits to ALCO, and tables key interest rate risk related matters (such as limit excesses) to the ALCO at least monthly, and escalates to the RMC and the Board for further deliberations/approval of proposed actions as necessary. The Group manages its IRRBB exposures at a desired level and within its risk tolerance thresholds through strategic planning of balance sheet compositions with matching of repricing maturity for its on-balance sheet instruments and/or off-balance sheet derivatives in each significant currency. Currently, the Group does not use interest rate instruments like interest rate swaps and interest rate futures for hedging purpose as the Group is not engaged in complex business transactions involving derivative financial instruments. Where the Group decides to implement a hedging to manage IRRBB, the hedge accounting treatment is required to be made in accordance with HKFRS standards. The Group conducts stress testing via scenario analyses to assess the adverse impact of various interest rate shocks on the Group's EVE and NII, and the outcomes are deliberated in ALCO and RMC meetings. The Group establishes model for IRRBB assessment including yield curve levels' projection of relevant interest-bearing assets and early redemption of loans. Any revisions to existing IRRBB model or assessment methodology are deliberated by ALCO and RMC for the approval by the Board. Internal Audit Department performs independent reviews on the effectiveness of the IRRBB management system, including but not limited to the implementation/compliance of the approved policies, monitoring of risk limits, escalation of limit breaches and adequacy of IRRBB assessment methodology.

The Group employs various analytical techniques to measure IRRBB and its impact on EVE and NII on monthly basis, including interest rate repricing profile analysis, and scenario assessment on the Group's EVE and NII under both parallel and non-parallel interest rate shocks.

For computation of the impact on EVE, the Group adopts the six prescribed standardised interest rate shock scenarios defined by the HKMA (namely parallel up, parallel down, steepener, flattener, short rate up, and short rate down).

For computation of the impact on NII over the next twelve months, the Group adopts the standardised and internal parallel up or down scenarios as mentioned above.

The key modeling assumptions used by the Group in EVE and NII calculation include the followings:

(i) For EVE computation, commercial margins and other spread components have been excluded in the cash flows used in the computation and discount rate.

(ii) The repricing maturity of non-maturity deposits is determined based on the earliest date on which their interest rates can be adjusted. Based on such assumption, the repricing maturity of all non-maturity deposits is determined to be one day.

(iii) Conditional prepayment rates have been computed for the fixed-rate retail loan products based on historical data of past two years or more. Retail term deposits are assumed not subject to early redemption risk given the material early withdrawal penalty imposed by the Group.

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

(iv) The Group measures IRRBB exposures separately for each significant currency in view that yield curves for different currencies vary from one to another. The Group's significant currency is defined as currency that accounting for at least 5% of total on-balance sheet interest rate-sensitive position in all currencies and that the aggregate of significant currency should account for at least 90% of total on-balance sheet interest rate-sensitive position. The interest rate correlations between different currencies are assumed to be insignificant.

Pursuant to the above methodology and assumptions, the impacts to EVE and NII for the position of 31 December 2019 under various scenarios are as follows:

Scenario	EVE HK$'000	NII HK$'000
Parallel up	(97,310)	58,056
Parallel down	100,881	(58,811)
Steepener	33,341	(46,828)
Flattener	(50,015)	57,260
Short rate up	(76,627)	71,481
Short rate down	78,159	(73,209)

As the Group applies new methodology and assumptions based on the requirements of the HKMA, the results of impact assessments in year 2019 are not directly comparable to that in year 2018.

Market risk management

(a) Currency risk

Currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign exchange positions are managed by the Group's Treasury Department within limits approved by the Board of Public Bank (Hong Kong).

The Group's assets and liabilities are mainly denominated in HKD, United States dollars ("USD"), Renminbi ("RMB"), Australian dollars ("AUD") and New Zealand dollars ("NZD"). The Group has limited foreign currency risk as the Group's net foreign currency positions are small, except for net structural position of RMB denominated operating capital.

As at 31 December 2019, if RMB had strengthened or weakened by 100 basis points against HKD with all other variables held constant, the Group's equity would have increased or decreased by HK$11 million (31 December 2018: HK$11 million) mainly as a result of foreign exchange impact arising from the net structural position of RMB denominated operating capital.

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(b) Price risk

Price risk is the risk to the Group's earnings and capital due to changes in the prices of securities, including debt securities and equities.

The Group monitors price risk principally by limits established for transactions and open positions. These limits are reviewed and approved by the respective Boards of Public Bank (Hong Kong) and Public Finance and are monitored on a daily basis.

The Group did not actively trade in financial instruments and in the opinion of the Directors, the price risk related to trading activities to which the Group was exposed was not material. Accordingly, no quantitative market risk disclosures for price risk have been made.

Credit risk management

Credit risk is the risk that a customer or counterparty in a transaction may default. It arises from the lending, trade finance, treasury and other activities undertaken by the Group.

The Group has a credit risk management process to measure, monitor and control credit risk. Its credit policy defines the credit extension and measurement criteria, the credit review, approval and monitoring processes, and the loan classification and provisioning systems. It has a hierarchy of credit authority which approves credit in compliance with the Group's credit policy. Credit risk exposures are measured and monitored against credit limits and other control limits (such as connected exposures, large exposures and risk concentration limits approved by the respective Boards or dedicated committees). Segregation of duties in key credit functions is in place to ensure separate credit control and monitoring. Management and recovery of problem credits are handled by an independent work-out team.

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and its capital resources. Its policy on connected lending exposure defines and states connected parties, statutory and applicable connected lending limits, types of connected transactions, the taking of collateral, the capital adequacy treatment, and detailed procedures and controls for monitoring connected lending exposures. In general, interest rates and other terms and conditions applying to connected lending should not be more favourable than those of the loans offered to non-connected borrowers under similar circumstances. The terms and conditions should be determined on normal commercial terms at arm's length and in the ordinary course of business of the Group.

Credit and compliance audits are periodically conducted by Internal Audit Departments of Public Bank (Hong Kong) and Public Finance to evaluate the effectiveness of the credit review, approval and monitoring processes and to ensure that the established credit policies and procedures are complied with.

Compliance Departments of Public Bank (Hong Kong) and Public Finance conduct compliance test at selected business units on identified high risk areas for adherence to regulatory and operational requirements and credit policies.

Notes to Financial Statements

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management (Continued)

Credit Committees of Public Bank (Hong Kong) and Public Finance monitor the quality of financial assets which are neither past due nor impaired by financial performance indicators (such as the loan-to-value ratio, debts servicing ratio, financial soundness of borrowers and personal guarantees) through meeting discussions and management reports. Loan borrowers subject to legal proceedings, negative comments from other counterparties and rescheduled arrangements are put under watch lists or under the "special mention" grade for management oversight.

Credit Committees of Public Bank (Hong Kong) and Public Finance also monitor the quality of past due or impaired financial assets by internal grading comprising "substandard", "doubtful" and "loss" accounts through meeting discussions and management reports. Impaired financial assets include those subject to personal bankruptcy petitions, corporate winding-up and rescheduled arrangements.

RMCs of Public Bank (Hong Kong) and Public Finance are responsible for reviewing and assessing the adequacy of risk management framework for identifying, measuring, monitoring and controlling the credit risk of existing and new products. The Committees also review credit risk management policies and credit risk tolerance limits. The RMC of Public Bank (Hong Kong) is assisted by CRMC for discharging its responsibilities on credit risk management issues.

The Group mitigates credit risk by credit protection provided by guarantors and by loan collateral such as customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

The "Neither past due nor impaired loans and advances and receivables" are shown in note 19 to the financial statements.

Loans and advances and receivables that were neither past due nor impaired were related to a large number of diversified customers for whom there was no recent history of default.

Maximum credit exposures for off-balance sheet items without taking into account the fair value of collateral are as follows:

	2019 **HK$'000**	2018 HK$'000
Credit related contingent liabilities	**44,409**	67,195
Loan commitments and other credit related commitments	**3,231,993**	3,110,113

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its current obligations. Major sources of liquidity risk of the Group are the early or unexpected withdrawals of deposits in cash outflow and the delay in cash inflow from loan repayments. To manage liquidity risk, the Group has established a liquidity risk management framework which incorporates liquidity risk tolerance, management oversight on liquidity risk, liquidity risk and funding strategy, risk related metrics and tools for liquidity risk management, internal liquidity risk pricing, and the manner of reporting significant matters. The major objectives of liquidity risk management framework are to (i) specify the roles and responsibilities of relevant parties on liquidity risk management, (ii) identify, measure and control liquidity risk exposures with proper implementation of funding strategies, (iii) effectively report significant risk related matters for management oversight, and (iv) manage the liquidity profile within risk tolerance. The liquidity risk management framework is cascaded to all business lines to ensure a consistent liquidity risk strategy, policies and practices across the Group. Liquidity risk related policies are reviewed by senior management and dedicated committees, and significant changes in such policies are approved by the Boards of Public Bank (Hong Kong) and Public Finance or committees delegated by the respective Boards.

ALCOs of Public Bank (Hong Kong) and Public Finance monitor the liquidity position as part of the ongoing management of assets and liabilities, and set up trigger limits to monitor liquidity risk. They also closely monitor the liquidity of the subsidiaries on a periodic basis to ensure that the liquidity structure of the subsidiaries' assets, liabilities and commitments can meet their funding needs, and that internal liquidity trigger limits are complied with.

Treasury Department of Public Bank (Hong Kong) and a dedicated department of Public Finance are responsible for the centralised implementation of the strategies and policies approved by the dedicated committees and the respective Boards, and developing operational procedures and controls to ensure the compliance with the aforesaid policies and to minimise operational disruptions in case of a liquidity crisis.

Risk Management Departments of Public Bank (Hong Kong) and Public Finance are responsible for day-to-day monitoring of liquidity maintenance ratios, loans to deposits ratios, concentration risk related ratios and other liquidity risk related ratios coupled with the use of cash-flow projections, maturity ladder, stress-testing methodologies and other applicable risk assessment tools and metrics to detect early warning signals and identify vulnerabilities to potential liquidity risk on forward-looking basis with the objective of ensuring different types of liquidity risks of the Group are appropriately identified, measured, assessed and reported. They also carry out analysis based on risk-based management reports, summarise the data from those reports and present the key liquidity information of the Group and key business lines to the respective ALCOs on a regular (at least monthly) basis. In case of significant issues, such as serious limit excesses or breaches or early warning signals of potential severe impact on Public Bank (Hong Kong) or Public Finance are identified from the aforesaid management reports or market information obtained from Treasury Department and business units, a designated ALCO member will convene a meeting (involving senior management members) to discuss risk related matters and propose actions to ALCO whenever necessary. A high level summary of the liquidity risk performance of Public Bank (Hong Kong) or Public Finance will be presented by the respective ALCOs to their RMCs and the Boards.

Notes to Financial Statements

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

The liquidity risk related metrics of Public Bank (Hong Kong) and Public Finance include at least liquidity maintenance ratios (with internal risk tolerance higher than the statutory liquidity maintenance ratio); cash-flow mismatches under normal and different stress scenarios; concentration related limits of deposits and other funding sources, and maturity profile of major assets and liabilities (including on-balance sheet and off-balance sheet items). The systems and procedures are in place to measure and manage liquidity risk by cash-flow projections in both baseline and stressed scenario arising from off-balance sheet exposures and contingent funding obligations. In baseline scenario, expected cash outflow is derived from the aforesaid exposures and obligations including potential drawdowns of unused committed facilities; trade related contingencies; issued letters of credit and financial guarantee unrelated to trade related contingencies; and uncommitted facilities and other contingent obligations with regard to not only the contractual terms in agreements with customers but also the manner of past months' utilisation and genuine drawdowns of the credit facilities, customer relationships and reputational risk perspectives. In stressed scenario, the utilisation and drawdowns of credit facilities are expected to escalate to some extent.

The funding strategies of the Group are to (i) diversify funding sources for mitigating liquidity risk exposures; (ii) minimise disruptions due to operational issues such as transfer of liquidity across group entities; (iii) ensure contingency funding is available to the Group; and (iv) maintain sufficient liquidity cushion to meet critical liquidity needs such as loan commitments and deposit withdrawals in stressed situations. The Group establishes concentration limits of funding sources taking into account the respective risk profiles of Public Bank (Hong Kong) and Public Finance. For instance, intra-group funding and funding from the largest funding provider are restricted to not more than 15% and 10% of total funding sources respectively to reduce reliance on single source of funding. Medium and long term funding is maintained at a level of at least 20% of total funding source to pursue stable funding structure.

Contingency funding plan is formulated to address liquidity needs at different stages including the mechanism for the detection of early warning signals of potential crisis at the early stage and obtaining of emergency funding in a bank-run scenario at the later stage. Designated roles and responsibilities of Crisis Management Team, departments and business units and their emergency contact information are documented clearly in the contingency funding plan as part of business continuity planning, and contingency funding measures are in place to set priorities of funding arrangements with counterparties, to set procedures for intraday liquidity risk management and intra-group funding support, to manage media relationship and to communicate with internal and external parties during a liquidity crisis. The stress-testing results are updated and reported to senior management regularly and the results such as the survival period for positive cash-flow mismatches are used in contingency funding planning and determination of the required level of liquidity cushion. Based on the results of liquidity stress-testing, standby facilities and liquid assets are maintained to provide liquidity to meet unexpected and material cash outflows in stressed situations.

The Group maintains sufficient liquidity cushion comprising mainly bills, notes or bonds issued by eligible central governments in a total amount of not less than HK$1.5 billion to address critical and emergent liquidity needs on an intraday basis and over other different time horizons. The Group is not subject to particular collateral arrangements or requirements in contracts in case there is a credit rating downgrade of entities within the Group.

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Apart from cash-flow projections under the normal scenario to manage liquidity under different time horizons, different stress scenarios such as the institution-specific stress scenario, the general market stress scenario and the combination of such scenarios with assumptions are set and reviewed by dedicated committees and approved by the respective Boards. Under the institution-specific stress scenario, loan repayments from some customers are assumed to be delayed. The projected cash inflow would be affected by the increased amount of rollover of banking facilities by some corporate customers or reduced by the amount of retail loan delinquencies. Regarding cash-outflow projection, part of undrawn banking facilities are not to be utilised by borrowers or honoured by the Group. The core deposits ratio would decrease as there would be early withdrawals of some fixed deposits before contractual maturity dates or there would be fewer renewals of fixed deposits on the contractual maturity dates. In the general market stress scenario, some undrawn banking facilities are not to be honoured upon drawdown as some bank counterparties will not have sufficient liquidity to honour their obligations in market. The Group may pledge or liquidate its liquid assets such as debt securities (including but not limited to treasury bills or notes or bonds issued by eligible central governments) to secure funding to address potential liquidity crisis. Liquidity stress-tests are conducted regularly (at least monthly) and the results are utilised for part of the contingency funding plan or for providing insights to management about the latest liquidity position of the Group.

Regulatory liquidity ratios

Pursuant to section 97H of the Hong Kong Banking Ordinance and Rules 7 and 8D of the Banking (Liquidity) Rules, Public Bank (Hong Kong) Group and Public Bank (Hong Kong) are required to comply with the liquidity maintenance ratio requirement and core funding ratio requirement whilst Public Finance is required to comply with the liquidity maintenance ratio requirement only.

	2019	2018
Liquidity Maintenance Ratio		
– Public Bank (Hong Kong) Group	**48.31%**	45.4%
– Public Bank (Hong Kong)	**46.87%**	44.7%
– Public Finance	**73.26%**	56.1%
Core Funding Ratio		
– Public Bank (Hong Kong) Group	**132.16%**	133.6%
– Public Bank (Hong Kong)	**129.36%**	131.3%

The average liquidity maintenance ratio and core funding ratio are computed using the arithmetic mean of each calendar month's average ratio as reported in the return relating to the liquidity position submitted to the HKMA.

Notes to Financial Statements

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Liquidity exposures and funding needs are measured and assessed at the level of individual legal entities (i.e. Public Bank (Hong Kong) and its core operating subsidiaries) and Mainland China Office (i.e. Shenzhen Branch and its sub-branches). Pursuant to the HKMA/SFC's requirements, the transferability of liquidity of Public Bank (Hong Kong) and its operating subsidiaries takes into account the need of compliance with trigger points of liquidity related ratios and minimum liquidity capital level; and other legal and regulatory limitations such as limits of connected exposures and capital related ratios. Pursuant to the requirements of China Banking and Insurance Regulatory Commission, the Mainland China Office of Public Bank (Hong Kong) is required to maintain regulatory liquidity ratios in RMB and foreign currencies of not less than 25%. Due to the foreign exchange controls imposed by the State Administration of Foreign Exchange ("SAFE") in China, cross-border funding flows to and from Mainland China is subject to the supervision and approval of SAFE. In view of the limitation on transferability of liquidity, Mainland China Office has maintained high and sufficient liquidity to meet its business needs. As at 31 December 2019, its liquidity ratios in RMB and foreign currencies of Shenzhen Branch were more than 100%.

Maturity analysis of financial liabilities, based on the contractual undiscounted cash flows, is as follows:

	2019							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Forward assets purchase	-	-	-	-	-	-	-	-
Forward forward deposits placed	-	-	-	-	-	-	-	-
Gross foreign currency contracts	-	512,182	102,907	387,497	-	-	-	1,002,586
Credit related contingent liabilities	8,205	4,308	9,343	22,401	20	132	-	44,409
Loan commitments and other credit related commitments	3,145,895	80,518	5,061	-	519	-	-	3,231,993
Customer deposits at amortised cost	10,818,344	8,062,458	10,605,500	4,679,337	7,662	-	-	34,173,301
Deposits and balances of banks and other financial institutions at amortised cost	161,373	538,545	90,482	-	-	-	-	790,400
Unsecured bank loans at amortised cost	-	371,132	-	80,288	1,103,518	-	-	1,554,938
Lease liabilities	-	5,565	11,091	42,959	71,271	8,289	-	139,175
Other liabilities	-	237,738	-	-	-	-	189,595	427,333
	14,133,817	9,812,446	10,824,384	5,212,482	1,182,990	8,421	189,595	41,364,135

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

	2018							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Forward assets purchase	–	–	–	–	–	–	–	–
Forward forward deposits placed	–	–	–	–	–	–	–	–
Gross foreign currency contracts	–	669,297	91,735	–	–	–	–	761,032
Credit related contingent liabilities	29,619	5,648	10,578	19,519	1,700	131	–	67,195
Loan commitments and other credit related commitments	2,870,337	199,050	–	–	40,726	–	–	3,110,113
Customer deposits at amortised cost	11,516,914	7,264,344	8,716,046	7,424,283	671,974	–	–	35,593,561
Deposits and balances of banks and other financial institutions at amortised cost	82,592	231,754	241,449	20,467	–	–	–	576,262
Unsecured bank loans at amortised cost	–	355,788	–	–	1,103,124	–	–	1,458,912
Other liabilities	–	87,160	–	–	–	–	179,554	266,714
	14,499,462	8,813,041	9,059,808	7,464,269	1,817,524	131	179,554	41,833,789

Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, human and system errors or from external events.

The Group has an operational risk management function in place to identify, measure, monitor and control operational risk. Its operational risk management policy defines the responsibilities of various committees, business units and supporting departments, and highlights key operational risk factors and categories with loss event types to facilitate the measurement and assessment of operational risks and their potential impact. Operational risk exposures are monitored by appropriate key risk indicators for tracking and escalation to management for providing early warning signals of increased operational risk or a breakdown in operational risk management. Regular operational risk management reports are received and consolidated from various parties and reported to the ORMC for the monitoring and control of operational risk.

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

Capital of the Group for regulatory and risk management purposes includes share capital, share premium, reserves, retained profits, regulatory reserve and subordinated debts, if any. Finance and Control Department is responsible for monitoring the amount of the capital base and capital adequacy ratio against trigger limits and for risk exposures and ensuring compliance with relevant statutory limits, taking into account business growth, dividend payouts and other relevant factors.

The Group's policy is to maintain a strong capital base to support the development of the Group's businesses and to meet the statutory capital adequacy ratios and other regulatory capital requirements. Capital is allocated to various business activities of the Group depending on the risks taken by each business division and in accordance with the requirements of relevant regulatory bodies, taking into account current and future activities within a time frame of 3 years.

Capital adequacy ratios

The consolidated capital adequacy ratios of the Group are computed in accordance with the provisions of the Banking (Amendment) Ordinance 2012 relating to Basel III capital standards and the amended Capital Rules. The Group has adopted the standardised approach for the calculation of credit risk-weighted exposures and market risk-weighted exposures. The Group has adopted the basic indicator approach and the standardised approach for the calculation of operational risk-weighted exposures of Public Bank (Hong Kong) and Public Finance, respectively.

	31 December 2019	31 December 2018
Group:		
Consolidated CET1 Capital Ratio	**15.8%**	14.3%
Consolidated Tier 1 Capital Ratio	**15.8%**	14.3%
Consolidated Total Capital Ratio	**17.3%**	15.7%
Public Bank (Hong Kong):		
Consolidated CET1 Capital Ratio	**19.7%**	18.0%
Consolidated Tier 1 Capital Ratio	**19.7%**	18.0%
Consolidated Total Capital Ratio	**20.9%**	19.2%

The above capital ratios are higher than the minimum capital ratios required by the HKMA.

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital conservation buffer (CCB)

Public Bank (Hong Kong) Group is subject to the 2.5% CCB ratio which has been phased-in from 2016. The applicable CCB ratio effective from 1 January 2019 is 2.5%.

Countercyclical capital buffer (CCyB)

The CCyB ratio is an additional layer of CET1 capital which takes effect as an extension of the Basel III CCB.

Public Bank (Hong Kong) Group has reserved a capital buffer for the implementation of the CCyB ratio, inclusive of the CCyB ratio of 2%, to the private sector credit exposures in Hong Kong.

The following table illustrates the geographical breakdown of risk-weighted amounts ("RWA") in relation to private sector credit exposures:

	Jurisdiction (J)	**Applicable JCCyB ratio in effect %**	**Total RWA used in computation of CCyB ratio HK$'000**	**CCyB ratio %**	**CCyB amount HK$'000**
As at 31 December 2019					
1.	Hong Kong	**2.000**	**17,941,038**		
2.	Mainland China	**–**	**1,953,985**		
Total			**19,895,023**	**1.804**	**358,821**

	Jurisdiction (J)	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK$'000	CCyB ratio %	CCyB amount HK$'000
As at 31 December 2018					
1.	Hong Kong	1.875	18,720,870		
2.	Mainland China	–	1,973,012		
Total			20,693,882	1.696	351,016

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Leverage ratio

The leverage ratio is introduced into the Basel III framework as a non-risk-based backstop limit to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, and introduce additional safeguards against model risk and measurement errors. The ratio is a volume-based measure calculated as Basel III Tier 1 capital divided by total on-balance sheet and off-balance sheet exposures with reference to the Completion Instructions of the Quarterly Template on the Leverage Ratio.

	31 December 2019 HK$'000	31 December 2018 HK$'000
Public Bank (Hong Kong):		
Consolidated Tier 1 Capital	**5,334,073**	5,077,274
Consolidated Exposure Measure for Leverage Ratio	**41,500,374**	42,119,234
Consolidated Leverage Ratio	**12.9%**	12.1%

Principal subsidiaries and basis of consolidation

The basis of consolidation for financial accounting purposes is in accordance with HKFRSs, as described in note 3 to the financial statements.

The basis of consolidation for regulatory purposes is different from that for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C(1) of the Capital Rules.

The consolidated capital adequacy ratio of the Group is computed on a consolidated basis including the Company, Public Bank (Hong Kong) and Public Finance. The subsidiaries not included in the computation of the consolidated capital adequacy ratio of the Group are Public Bank (Nominees) Limited, Public Credit Limited (in members' voluntary liquidation), Public Futures Limited, Public Pacific Securities Limited (in members' voluntary liquidation), Public Financial Securities Limited, Public Financial Limited, Public Securities Limited, Public Securities (Nominees) Limited, Winton (B.V.I.) Limited, Winton Financial and Winton Motors, Limited.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) is computed on a consolidated basis including Public Bank (Hong Kong) and Public Finance. The subsidiaries not included in the computation of the consolidated capital adequacy ratio of Public Bank (Hong Kong) are Public Bank (Nominees) Limited, Public Credit Limited (in members' voluntary liquidation), Public Futures Limited, Public Pacific Securities Limited (in members' voluntary liquidation), Public Financial Securities Limited, Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited.

Details of the Company's subsidiaries are set out in note 1 to the financial statements.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting year is as follows:

	Notes	2019 HK$'000	2018 HK$'000
ASSETS			
Cash and short term placements		**10,726**	3,425
Investment properties		**2,918,404**	2,782,673
Property and equipment		**1,514**	998
Investments in subsidiaries	41(a)	**6,593,507**	6,593,507
Current tax recoverable		**–**	631
Deferred tax assets		**14**	137
Other assets		**532**	342
TOTAL ASSETS		**9,524,697**	9,381,713
EQUITY AND LIABILITIES			
LIABILITIES			
Dividends payable		**164,688**	186,646
Unsecured bank loans at amortised cost		**1,442,693**	1,399,614
Tax payable		**80**	–
Deferred tax liabilities		**11,945**	10,976
Other liabilities		**54,110**	58,333
TOTAL LIABILITIES		**1,673,516**	1,655,569
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		**109,792**	109,792
Reserves	41(b)	**7,741,389**	7,616,352
TOTAL EQUITY		**7,851,181**	7,726,144
TOTAL EQUITY AND LIABILITIES		**9,524,697**	9,381,713

Lai Wan
Director

Tan Yoke Kong
Director

Notes to Financial Statements

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(a) Investments in subsidiaries

Information about the investments in subsidiaries of the Company at the end of the reporting year is as follows:

	2019 HK$'000	2018 HK$'000
Unlisted shares, at cost	**6,593,507**	6,593,507
	6,593,507	6,593,507

The amounts due from subsidiaries were unsecured, and had no fixed terms of repayment. No interest-bearing amounts were due from subsidiaries as at 31 December 2019 and 31 December 2018.

Particulars of the Company's subsidiaries are shown in note 1 to the financial statements.

(b) Reserves

Information on the movement of the reserves of the Company during the reporting year is as follows:

	Note	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
As at 1 January 2018		4,013,344	829	194,176	3,264,246	7,472,595
Profit for the year		–	–	–	385,299	385,299
Dividends for 2018	15	–	–	–	(241,542)	(241,542)
As at 31 December 2018 and 1 January 2019		**4,013,344**	**829**	**194,176**	**3,408,003**	**7,616,352**
Profit for the year		**–**	**–**	**–**	**344,621**	**344,621**
Dividends for 2019	15	**–**	**–**	**–**	**(219,584)**	**(219,584)**
As at 31 December 2019		**4,013,344**	**829**	**194,176**	**3,533,040**	**7,741,389**

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation in September 1991 over the nominal value of the Company's shares issued in exchange therefor. Under the Bermuda Companies Act, a company may make distributions to its shareholders out of the contributed surplus under certain circumstances.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 16 January 2020.

List of Properties

LIST OF PROPERTIES OWNED BY THE GROUP AS AT 31 DECEMBER 2019

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (Square Metres)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 Dec 2019 (HK$'000)
Shop 7, Ground Floor Mei Hang Building Nos. 15/17, 21/25, 29/33, 37/41 & 45 Kai Man Path Tuen Mun New Territories Hong Kong	A shop unit on the ground floor of a 5-storey composite building	Public Finance's Tuen Mun Branch	Leasehold 149 Years	28 Years (30-6-2047)	46 Years	84	30-6-1980	1,006
Shop A, Ground Floor Kong Kai Building No. 184 Aberdeen Main Road Aberdeen Hong Kong	A shop unit on the ground floor of a 22-storey residential building built on a 2-storey commercial podium	Public Finance's Aberdeen Branch	Leasehold 999 Years	840 Years (26-12-2859)	30 Years	68	9-3-1990	3,768
Ground Floor Yue Yee Mansion No. 92 Shung Ling Street San Po Kong Kowloon Hong Kong	Ground floor of a 7-storey Chinese tenement building	Public Finance's San Po Kong Branch	Leasehold 149 Years	28 Years (30-6-2047)	55 Years	94	9-6-1990	1,698
Flat F, 29th Floor Pine Mansion Harbour View Gardens No. 26 Taikoo Wan Road Taikoo Shing Quarry Bay Hong Kong	A residential unit of a 30-storey residential building	Leased to third parties	Leasehold 999 Years	880 Years (18-4-2899)	36 Years	91	31-12-2011 (#)	17,890
Units 1003-1005 10th Floor Fortress Tower No. 250 King's Road North Point Hong Kong	3 office units on the 10th floor of a 20-storey office building built on a 4-storey commercial podium	Public Finance's I.T. Centre	Leasehold 150 Years	107 Years (26-8-2126)	36 Years	293	18-3-1992	7,036
Apartment A on 14th Floor of Tower II and Car Parking Space Nos. 4 and 66 on 4th Level Regent on The Park No. 9A Kennedy Road Wanchai Hong Kong	A residential unit on the 14th floor of a 34-storey residential building	Staff quarters for the Group	Leasehold 150 Years	111 Years (19-10-2130)	34 Years	253	5-3-1993	8,122
Ground Floor & Open Yard No. 751 Nathan Road Mongkok Kowloon Hong Kong	Ground floor of a 14-storey composite building	Public Bank (Hong Kong)'s Prince Edward Branch	Leasehold 150 Years	60 Years (18-8-2079)	49 Years	130	24-5-1993	11,302
11th Floor Wing On House No. 71 Des Voeux Road Central Central Hong Kong	11th floor of a 31-storey office building built on a 2-storey podium	The Group's office	Leasehold 999 Years	883 Years (14-8-2902)	52 Years	1,464	11-6-1993	87,289

List of Properties

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (Square Metres)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 Dec 2019 (HK$'000)
Shop B, Ground Floor and Office B 1st to 17th Floors JCG Building No. 16 Mongkok Road Mongkok Kowloon Hong Kong	A shop unit on the ground floor and all B units on the 1st to 17th floors of a 18-storey commercial building with shops and offices	Public Bank (Hong Kong)'s and Public Finance's Mongkok Branch; the Group's storeroom; office space leased to third parties	Leasehold 150 Years	31 Years (27-5–2050)	32 Years	2,215	30-6–1994 (#)	100,980
Flat F, 24th Floor Ngan Sing Mansion Sing Fai Terrace No. 1 Tai Fung Avenue Taikoo Shing Quarry Bay Hong Kong	A residential unit of a 26-storey residential building built on a podium	Staff quarters for the Group	Leasehold 999 Years	880 Years (18-4–2899)	35 Years	76	1-8–1995	4,454
Ground Floor Ruby Commercial Building No. 480 Nathan Road Yau Ma Tei Kowloon Hong Kong	Ground floor of a 16-storey commercial building	Public Finance's Nathan Road Branch	Leasehold 150 Years	48 Years (22-10-2067)	37 Years	110	14-1–2000	8,558
Shop Nos. 51 to 53 1st Floor Harbour Crystal Centre No. 100 Granville Road Tsimshatsui Kowloon Hong Kong	3 commercial units on the 1st floor of a 16-storey commercial building	Public Finance's Tsimshatsui Branch	Leasehold 150 Years	109 Years (10-12-2128)	37 Years	131	1-11-2000	2,087
Ground Floor Section B of Lot No. 3704 in DD120 Yuen Long New Territories Hong Kong	Ground floor of a 5-storey composite building	Public Finance's Yuen Long Branch	Leasehold 149 Years	28 Years (30-6–2047)	62 Years	102	23-4–2001	10,328
Shop A, Ground Floor Wing On House No. 71 Des Voeux Road Central Central Hong Kong	Ground floor of a 31-storey office building built on a 2-storey podium	Public Bank (Hong Kong)'s Central Branch	Leasehold 999 Years	883 Years (14-8–2902)	52 Years	113	15-10-2003	52,147
Workshops A, B and C Ground Floor and Flat E, 9th Floor Hung Cheong Factory Building No. 742-748 Cheung Sha Wan Road No. 3 Kwong Cheung Street Cheung Sha Wan Kowloon Hong Kong	3 workshop units on the ground floor and a unit on the 9th floor of a 12-storey industrial building	A portion of workshops on the ground floor is leased to third parties and the remaining portions and the whole Flat E on the 9th floor being occupied by the Group as branch or office	Leasehold 149 Years	28 Years (27-6–2047)	54 Years	682 Workshops A, B and C 68 Flat E	24-7–1992 (#)	34,377
Workshops E1 and F1 10th Floor Hang Fung Industrial Building Phase 1 2G Hok Yuen Street Hunghom Kowloon Hong Kong	2 workshops on the 10th floor of a 13-storey industrial building	Occupied by the Group as storeroom	Leasehold 150 Years	28 Years (15-9–2047)	40 Years	962	24-7–1992	649

List of Properties

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (Square Metres)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 Dec 2019 (HK$'000)
11th Floor Argyle Centre, Phase 1 No. 688 Nathan Road No. 65 Argyle Street Mongkok Kowloon Hong Kong	Office space on the 11th floor of a 21-storey commercial building	The Group's office; office space leased to third parties	Leasehold 150 Years	41 Years (18-5–2060)	37 Years	1,465	2-5–1994 (#)	246,330
4th Floor 581 Nathan Road Mongkok Kowloon Hong Kong	4th floor of a 7-storey composite building with shops and residential flats	Vacant	Leasehold 150 Years	18 Years (25-12-2037)	50 Years	55	14-6–1984 (#)	4,430
Unit 3, 5th Floor Telford House No. 16 Wang Hoi Road Kowloon Bay Kowloon Hong Kong	An office unit on the 5th floor of a 23-storey commercial building	Leased to third parties	Leasehold 149 Years	28 Years (30-6–2047)	25 Years	90	30-5–2006** (#)	13,700
Shop 3C, 1st Floor Telford House No. 16 Wang Hoi Road Kowloon Bay Kowloon Hong Kong	A shop unit on the 1st floor of a 23-storey commercial building	Leased to third parties	Leasehold 149 Years	28 Years (30-6–2047)	25 Years	47	30-5–2006** (#)	27,300
Ground Floor 17 South Wall Road and the whole block of 19 South Wall Road Kowloon City Kowloon Hong Kong	A shop unit on the ground floor of a 5-storey tenement block and the whole block of a 5-storey tenement block	Public Bank (Hong Kong)'s Kowloon City Branch on the ground floor; and some portion as Public Bank (Hong Kong)'s staff Quarters; and remaining portion leased to third parties	Leasehold 149 Years	28 Years (30-6–2047)	42 Years	432	30-5–2006** (#)	29,354
Shop 5, Ground Floor Fu Ho Building Nos. 3-7 Kau Yuk Road Yuen Long New Territories Hong Kong	A shop unit on the ground floor of a 14-storey composite building	Public Bank (Hong Kong)'s Yuen Long Branch	Leasehold 149 Years	28 Years (30-6–2047)	40 Years	82	30-5–2006**	8,351
Shop B, Ground Floor Victory Court Nos. 185-187 Castle Peak Road Tsuen Wan New Territories Hong Kong	A shop unit on the ground floor of a 14-storey composite building	Public Bank (Hong Kong)'s Tsuen Wan Branch	Leasehold 149 Years	28 Years (30-6–2047)	39 Years	149	30-5–2006**	8,948
Units 801, 808-812, Level 8 Metroplaza, Tower 2 No. 223 Hing Fong Road Kwai Fong New Territories Hong Kong	6 office units on level 8 of a 35-storey office building on a 9-storey commercial carpark podium	Public Bank (Hong Kong)'s Backup office, Personal Loans Centre and Direct Sales office	Leasehold 149 Years	28 Years (30-6–2047)	27 Years	527	30-5–2006**	15,443
Units 1-5, 24th Floor Luen Cheong Can Centre No. 8 Yip Wong Road Tuen Mun New Territories Hong Kong	5 industrial units on the 24th floor of a 26-storey industrial building	Public Bank (Hong Kong)'s warehouse	Leasehold 149 Years	28 Years (30-6–2047)	27 Years	1,053	30-5–2006**	1,723

List of Properties

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (Square Metres)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 Dec 2019 (HK$'000)
Basement, Ground Floor 1st-12th Floors, Flats A & B on 14th Floor, 17th Floor Flat A on 19th Floor 21st Floor and Main Roof Public Bank Centre No. 120 Des Voeux Road Central Central Hong Kong	A shop unit on the ground floor and basement and office floors of a 23-storey commercial building	Public Bank (Hong Kong)'s Main Branch and administrative office	Leasehold 999 Years	823 Years (26-6-2842)	42 Years	5,451	30-5-2006**	246,889
Units 40-41, Ground Floor Hung Hom Commercial Centre Nos. 37-39 Ma Tau Wai Road Hunghom Kowloon Hong Kong	2 shop units on the ground floor of a 14-storey commercial building	Public Bank (Hong Kong)'s Hung Hom Branch	Leasehold 149 Years	28 Years (15-9-2047)	37 Years	184	30-5-2006**	10,634
Shop B1, Ground Floor Hong Kong Plaza No. 188 Connaught Road West Western District Hong Kong	A shop unit on the ground floor of a 42-storey commercial building	Public Bank (Hong Kong)'s Shek Tong Tsui Branch	Leasehold 150 Years (for Lot No. 289) Leasehold 999 Years (for Lot No. 302)	35 Years (27-12-2054) 883 Years (3-9-2902)	36 Years	180	30-5-2006**	12,924
Shop 1, on Level 1, Carrianna Friendship Square Renminnan Road/Chunfeng Road, Luohu District Shenzhen PRC	A shop unit on the ground floor of a 33-storey composite building	Public Bank (Hong Kong)'s Shenzhen Branch	Leasehold 50 Years	22 Years (17-12-2041)	22 Years	168	30-5-2006**	17,647
Shops Nos. 4, 5A, 5B, 6A and 6B on Level 1 of Shatin New Town, Nos.1-15 Wang Pok Street Shatin New Territories Hong Kong	5 shops on level 1 of a commercial podium under eight blocks of 22-storey residential buildings	Public Bank (Hong Kong)'s and Public Finance's Shatin Branch	Leasehold 149 Years	28 Years (30-6-2047)	36 Years	203	1-12-2008	33,393
Shop B, Ground Floor Kong Kai Building, No. 184 Aberdeen Main Road Aberdeen Hong Kong	A shop unit on the ground floor of a 22-storey residential building	Public Bank (Hong Kong)'s Aberdeen Branch	Leasehold 999 Years	840 Years (26-12-2859)	30 Years	105	16-4-2016	52,584
Shop G1A-G1B, G/F Tai Moon Building Cosmopolitan Estate Nos. 43-59 Tai Tsun Street Tai Kok Tsui Kowloon Hong Kong	A shop unit on the ground floor of a 12-storey residential building	Public Bank (Hong Kong)'s Tai Kok Tsui Branch and leased to third parties	Leasehold 999 Years	851 Years (04-08-2870)	44 Years	163	28-9-2018 (#)	52,666

Notes:

(#) Revaluation was conducted as at 31 December 2019.

** The acquisition date for those properties vested over from Public Bank (Hong Kong) is 30 May 2006.