



大眾金融控股有限公司 PUBLIC FINANCIAL HOLDINGS LIMITED

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



EXCELLENCE
IS OUR
COMMITMENT



2020 ANNUAL REPORT



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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

Dato' Chang Kat Kiam
Chong Yam Kiang
Quah Poh Keat

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
2 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

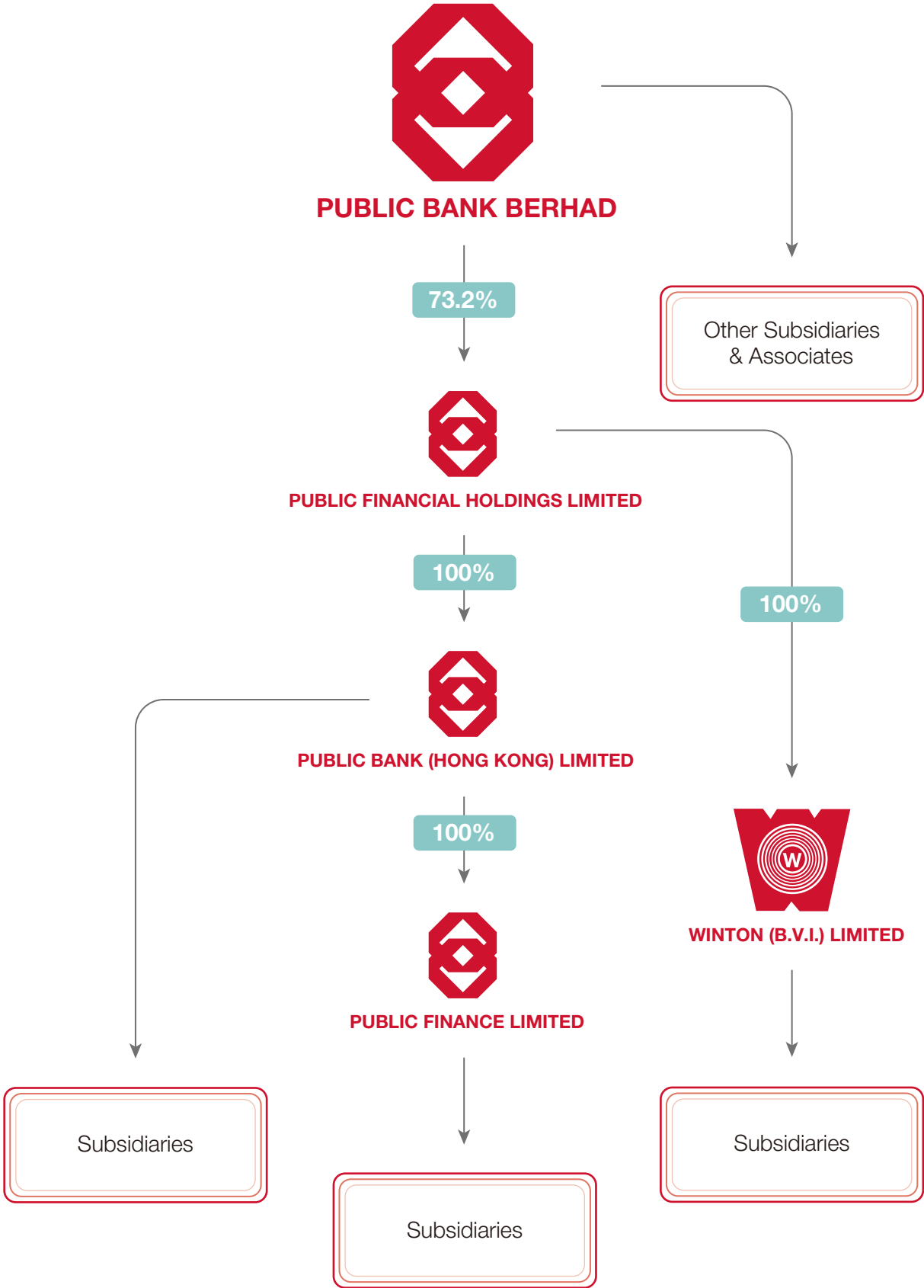
Legal Advisers

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

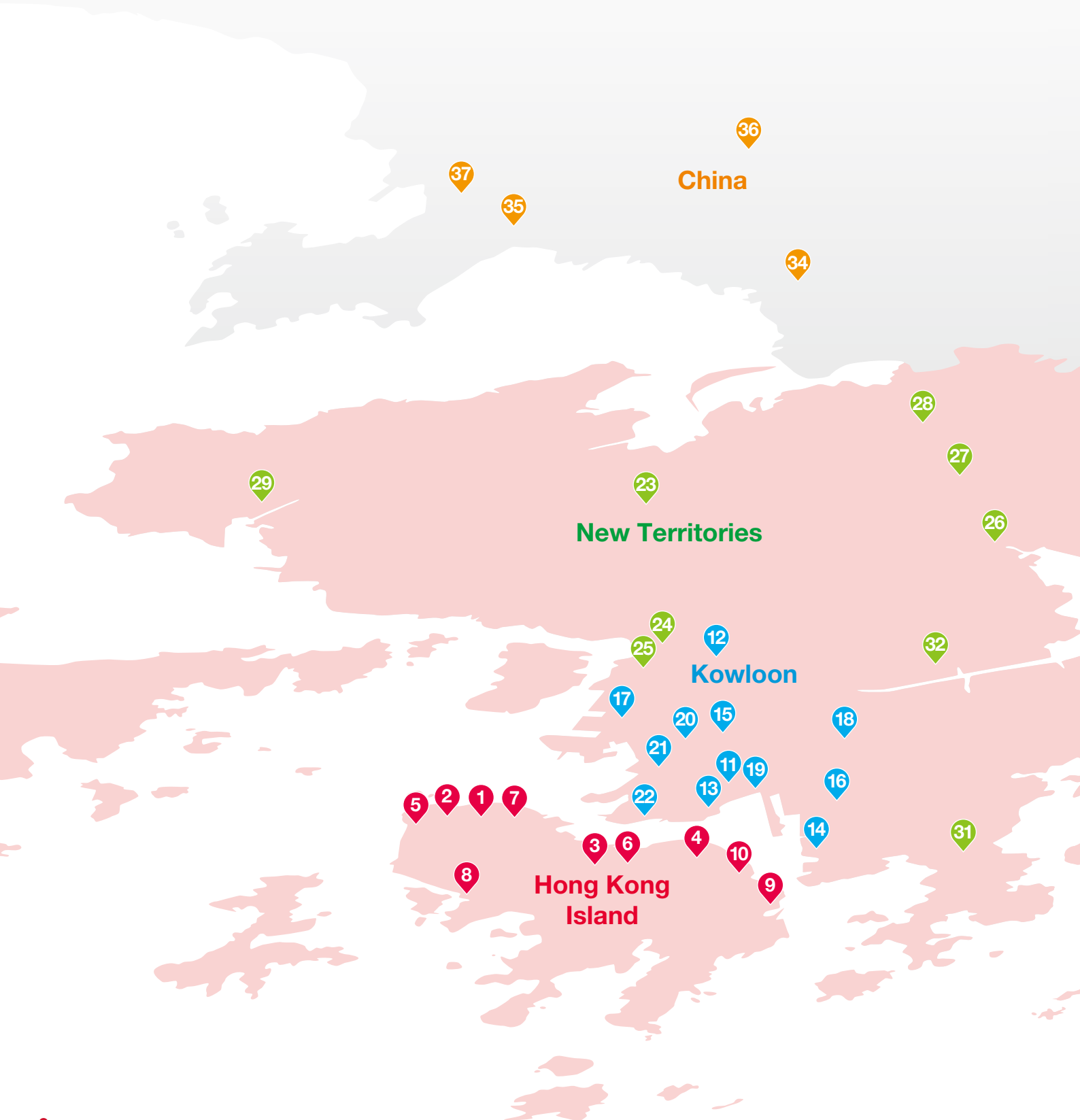
Principal Bankers

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

- | | | |
|---|--|--|
| <p>1 Main Branch
G/F, Public Bank Centre
120 Des Voeux Road Central
Tel: 2541 9222 Fax: 2545 2866
Manager: Yam Oi Yin, Pauline</p> | <p>4 North Point Branch
Shop 2, G/F, Two Chinachem Exchange Square
338 King's Road
Tel: 2568 5141 Fax: 2567 0655
Manager: Chow Yuet Kei, Mary</p> | <p>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</p> |
| <p>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</p> | <p>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</p> | <p>9 Shau Kei Wan Branch
Shop C, G/F, Island Walk,
163 Shau Kei Wan Road
Tel: 2884 3993 Fax: 2885 9283
Manager: Chan Chi Ho, Eric</p> |
| <p>3 Wanchai Commercial Centre
9/F, Tower 188,
Nos. 188-190 Hennessy Road
Tel: 2891 4171 Fax: 2834 1012
Manager: Kwong Hon Wun, Peter</p> | <p>6 Causeway Bay Branch
G/F and M/F
447 Hennessy Road
Tel: 2572 2363 Fax: 2572 3033
Manager: Chong Mei Kuen, Joe</p> | <p>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</p> |
| <p>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</p> | | |

KOWLOON

- | | | |
|--|--|---|
| <p>11 Yaumatei Branch
G/F, Ek Nam Building
486 Nathan Road
Tel: 2381 1678 Fax: 2395 6398
Manager: Chan Wai Cheong, Daniel</p> | <p>15 Mongkok Branch
G/F, JCG Building
16 Mongkok Road
Tel: 2391 8393 Fax: 2391 6909
Manager: Chan Shiu Man, Ricky</p> | <p>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</p> |
| <p>12 Kowloon City Branch
G/F, 15 Nga Tsin Wai Road
Tel: 2382 0147 Fax: 2718 4281
Manager: Chan Chi Man, Mandy</p> | <p>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</p> | <p>20 Prince Edward Branch
G/F, 751 Nathan Road
Tel: 2397 3830 Fax: 2397 1006
Manager: Ngan Pui Shan, Sandy</p> |
| <p>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</p> | <p>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</p> | <p>21 Tai Kok Tsui Branch
Unit B, Shop No. 1, G/F, Tai Moon Building
Cosmopolitan Estate, Nos. 43-59 Tai Sun Street
Tel: 2392 1538 Fax: 2392 1101
Manager: Tsu Shuk Yi, Carmen</p> |
| <p>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</p> | <p>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, Lippy</p> | <p>22 Tsim Sha Tsui Branch
G/F, (Front Portion), 43 Mody Road
Tel: 2721 1218 Fax: 2721 1028
Manager: Lai Siu Yee, Flora</p> |

NEW TERRITORIES

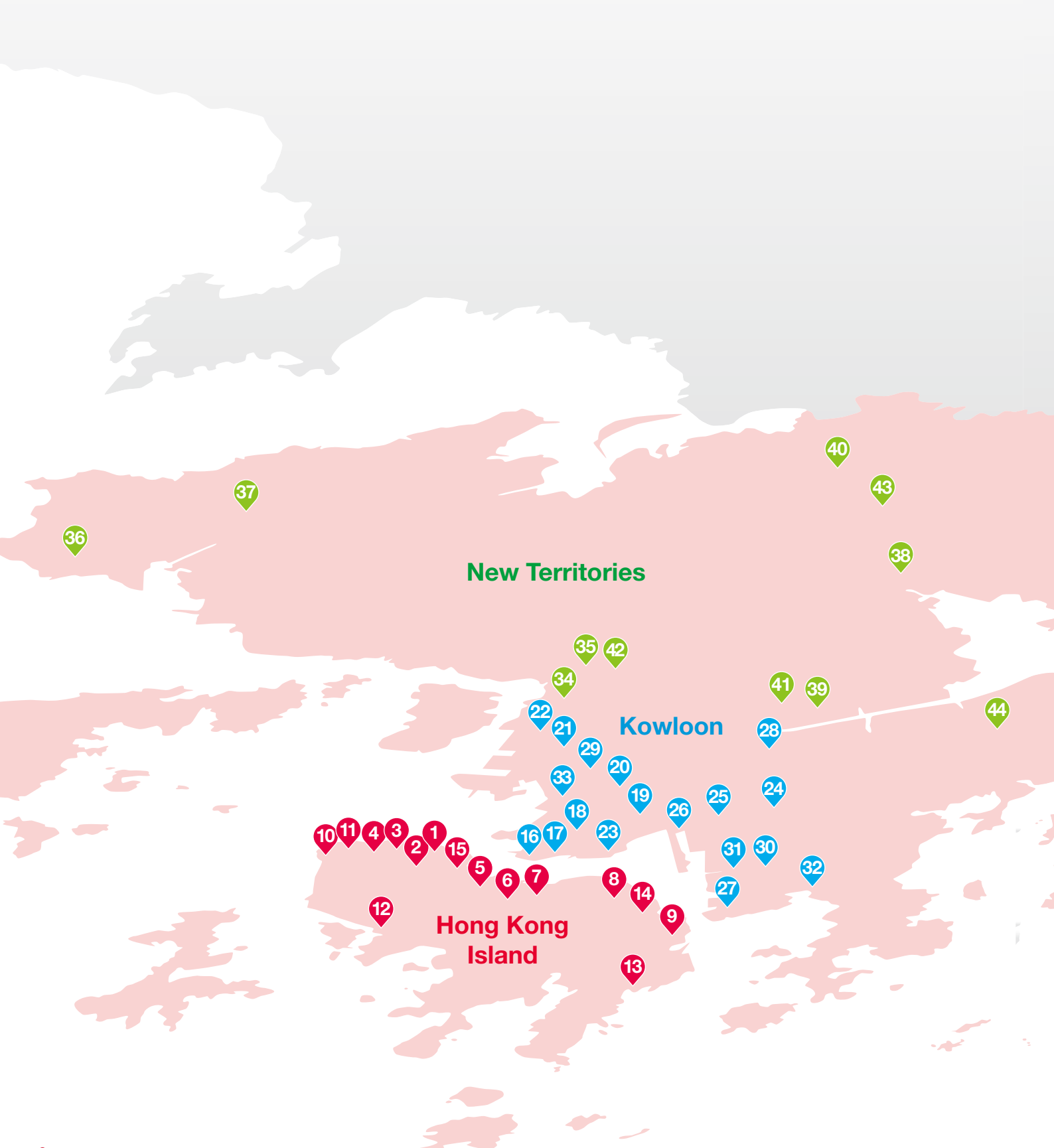
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|---|---|---|
| <p>23 Yuen Long Branch
Shop 5, G/F, Fu Ho Building
3-7 Kau Yuk Road
Tel: 2479 4265 Fax: 2473 3934
Manager: Lam Wong Kan, Kent</p> | <p>26 Tai Po Branch
Eastmost Shop on G/F,
Nos. 37/39 Po Yick Street
Tel: 2657 2861 Fax: 2657 7389
Manager: Yan Yi Kam, Patrick</p> | <p>30 Sai Kung Branch
G/F, 16 Yi Chun Street
Tel: 2792 8588 Fax: 2791 0077
Manager: Kee Ka Wai</p> |
| <p>24 Tsuen Wan Branch
G/F, Victory Court,
185-187 Castle Peak Road
Tel: 2490 4191 Fax: 2490 4811
Manager: Chui Pui Ching, Anny</p> | <p>27 Fanling Branch
G/F, 11 Wo Lung Street
Luen Wo Market
Tel: 2669 1559 Fax: 2669 8780
Manager: Chan Sau Ping, Rebecca</p> | <p>31 Tseung Kwan O Branch
Shop 106, 1/F, Savannah Place,
No. 3 Chi Shin Street
Tel: 2701 7688 Fax: 2701 7628
Manager: Lam Kwok Sing, Nelson</p> |
| <p>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</p> | <p>28 Sheung Shui Branch
G/F, 137 San Shing Avenue
Tel: 2639 0307 Fax: 3124 0091
Manager: Kan Wai Man, Daniel</p> | <p>32 Shatin Branch
Shop 4-6B,
Lucky Plaza Commercial Centre
Tel: 2601 6308 Fax: 2601 3686
Manager: Chow Wing Hung, Desmond</p> |
| <p>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</p> | | |

CHINA

- | | | |
|--|--|--|
| <p>33 Shenzhen Branch
Shop No. 1, G/F, Carrianna Friendship Square
Renminnan Road, Luohu District, Shenzhen
People's Republic of China
Tel : (86-755) 2518 2822
Fax : (86-755) 2518 2327
Manager : Ying Wei Jun, Yoyo</p> | <p>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</p> | <p>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</p> |
| <p>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 : Huang Xue Feng, Bronze</p> | <p>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</p> | <p>Shanghai Representative Office
Room 1 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</p> |
| <p>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</p> | | |



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

- | | | |
|--|---|---|
| <p>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.</p> | <p>6 Russell Street Causeway Bay Branch
 Unit 02A & 03, 30/F, Soundwill Plaza
 38 Russell Street
 Tel: 2891 7028 Fax: 2893 3769
 Manager: Chu Siu Lan, Vicky</p> | <p>11 Western District Branch
 G/F, 161 Des Voeux Road West
 Tel: 2547 9148 Fax: 2546 1142
 Manager: Law Tak Lam</p> |
| <p>2 Queen Victoria Street Central Branch
 G/F, 14 Queen Victoria Street
 Tel: 2526 6415 Fax: 2877 9088
 Manager: Wong Chun Kuen, Boris</p> | <p>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</p> | <p>12 Aberdeen Branch
 Shop A, G/F, Kong Kai Building
 184-188 Aberdeen Main Road
 Tel: 2553 8231 Fax: 2554 3897</p> |
| <p>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</p> | <p>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</p> | <p>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</p> |
| <p>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</p> | <p>9 Shaukeiwan Branch
 G/F, 134 Shaukeiwan Road
 Tel: 2567 0461 Fax: 2885 8501
 Manager: Fong Tsz Kin, Kenny</p> | <p>14 Quarry Bay Branch
 G/F, 14 Hoi Kwong Street
 Tel: 2516 6368 Fax: 2579 0084
 Manager: Lau Siu Kai, Dickie</p> |
| <p>5 Wanchai Branch
 4/F, CNT House, 120 Johnston Road
 Tel: 2574 6245 Fax: 2893 6653
 Manager: Lau Hing Tai, Chris</p> | <p>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</p> | <p>15 Admiralty Branch
 Shop 2010, 2/F, United Centre
 95 Queensway
 Tel: 2520 1323 Fax: 2520 6889
 Manager: Lai Chun Yip</p> |

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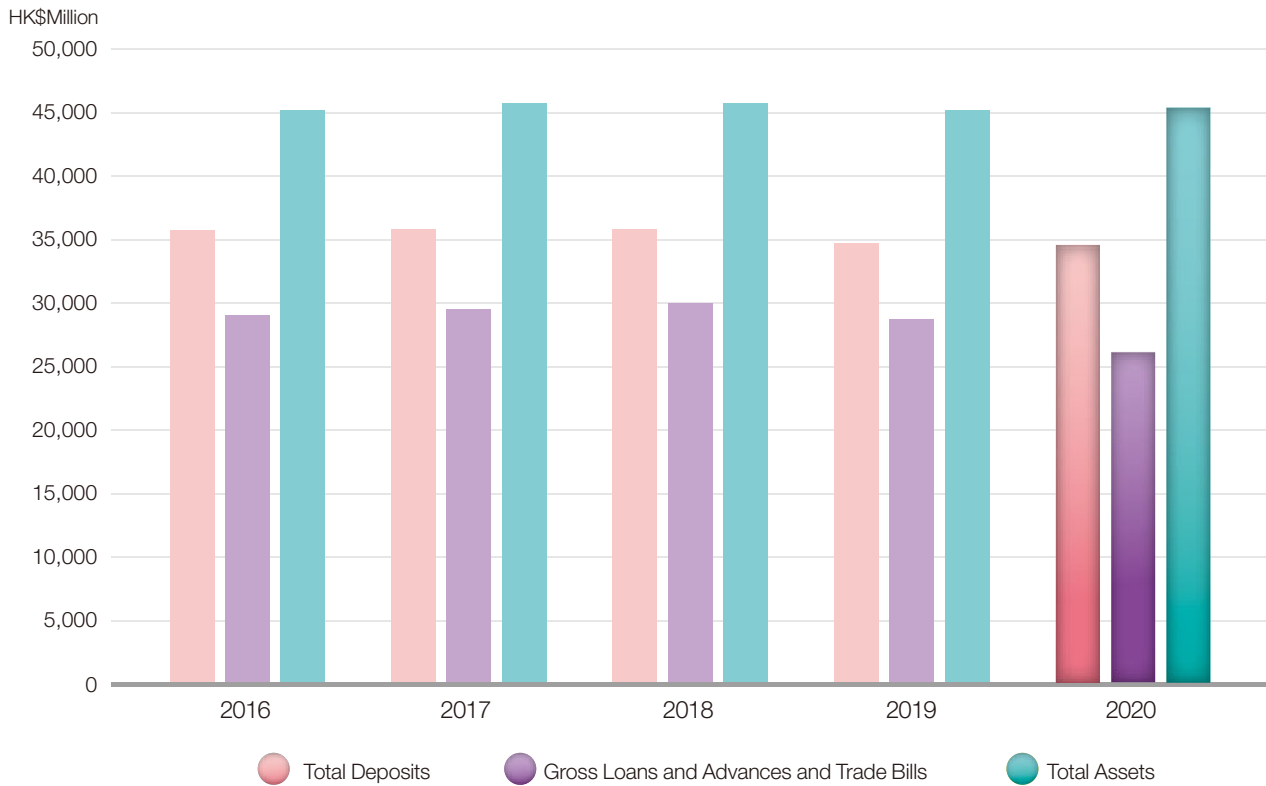
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| <p>16 Star House Branch
 Unit 921, 9/F,
 Star House, 3 Salisbury Road
 Tel: 2730 8395 Fax: 2730 2346
 Manager: Lee Wing Fai, Joe</p> | <p>22 Cheung Sha Wan Branch
 Unit C1, G/F, 746 Cheung Sha Wan Road
 Tel: 2744 5416 Fax: 2785 3634
 Manager: Cheung Chun Ming, Jimmy</p> | <p>28 Wong Tai Sin Branch
 G/F, Wing Kin Mansion
 89 Fung Tak Road
 Tel: 2320 5112 Fax: 2726 0106</p> |
| <p>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</p> | <p>23 Hunghom Branch
 G/F, 130 Ma Tau Wai Road
 Tel: 2334 4307 Fax: 2764 4876</p> | <p>29 Prince Edward Branch
 Shop D, G/F,
 785-787A Nathan Road
 Tel: 2380 3260 Fax: 2380 4100
 Manager: Lo Chi Wai</p> |
| <p>18 Jordan Road Branch
 Shop 2A, G/F, Kent Building
 39 & 39A Jordan Road
 Tel: 2736 4711 Fax: 2314 8432</p> | <p>24 Sanpokong Branch
 G/F, 92 Shung Ling Street
 Tel: 2328 3175 Fax: 2325 4504
 Manager: Chan Shun Yiu, Jason</p> | <p>30 Ngau Tau Kok Branch
 Shop 29, G/F, Wang Kwong House
 33 Ngau Tau Kok Road
 Tel: 2757 8299 Fax: 2757 8737</p> |
| <p>19 Nathan Road Branch
 G/F, Ruby Commercial Building
 480 Nathan Road
 Tel: 2771 5285 Fax: 2770 4127
 Manager: Law Sai Chiu, Kelvin</p> | <p>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</p> | <p>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</p> |
| <p>20 Mongkok Branch
 Flat B, 1/F, JCG Building, 16 Mongkok Road
 Tel: 2394 0253 Fax: 2787 5630
 Manager: Tang Ka Mun, Eric</p> | <p>26 Tokwawan Branch
 Block Front, G/F,
 70B Tokwawan Road
 Tel: 2365 7061 Fax: 2764 2832
 Manager: Lau Lai Kan, Caren</p> | <p>32 Tseung Kwan O Branch
 Shop No. S12A, G/F, Bauhinia Garden
 11 Tong Chun Street
 Tel: 2790 5600 Fax: 2790 5618</p> |
| <p>21 Shamshuipo Branch
 G/F, 52 Un Chau Street
 Tel: 2728 2347 Fax: 2729 9685
 Manager: Fan Mei Ying, May</p> | <p>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</p> | <p>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</p> |

NEW TERRITORIES

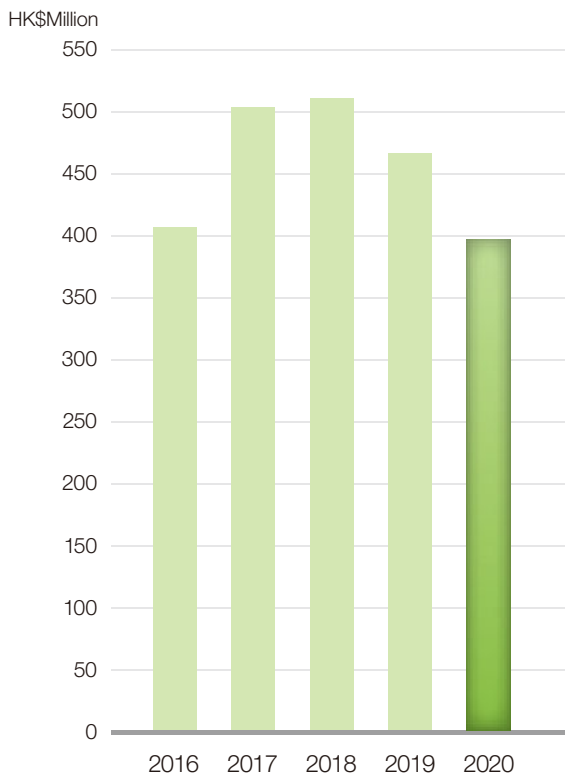
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|---|---|---|
| <p>34 Kwai Chung Branch
 Shop 86A & 88A, 3/F, Kwai Chung Plaza
 7-11 Kwai Foo Road
 Tel: 2420 0121 Fax: 2485 0590
 Manager: Yeung Chui Ming</p> | <p>38 Tai Po Branch
 Shop C, G/F, Kwong Fuk Place,
 8 Kwong Fuk Road
 Tel: 2656 5207 Fax: 2657 7019
 Manager: Woo Ying Kam, Alex</p> | <p>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</p> |
| <p>35 Tsuen Wan Branch
 Unit 1101, 11/F, Kourou Tsuen Wan
 68 Chung On Street, Tsuen Wan
 Tel: 2493 4187 Fax: 2417 4497
 Manager: Lee Siu Leung, Keith</p> | <p>39 Shatin Branch
 Portion of Shop 4-6B,
 Lucky Plaza Commercial Centre
 Tel: 2699 5633 Fax: 2691 4588
 Manager: Yeung Lok Shan, Diane</p> | <p>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</p> |
| <p>36 Tuen Mun Branch
 Shop 7, G/F, Mei Hang Building, Kai Man Path
 Tel: 2457 2901 Fax: 2440 2503</p> | <p>40 Sheung Shui Branch
 G/F, 6 Lung Sum Avenue
 Tel: 2673 2729 Fax: 2673 9278
 Manager: Kong Tsan Wing, Murphy</p> | <p>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</p> |
| <p>37 Yuen Long Branch
 G/F, 182 Main Road
 Tel: 2476 2146 Fax: 2475 9903
 Manager: Lai Hon Wang, Felix</p> | <p>41 Tai Wai Branch
 Shop E, G/F, On Ting Mansion
 49-55 Chik Fu Street
 Tel: 2609 2611 Fax: 2609 4088
 Manager: Chung Wang Wai, Terry</p> | |



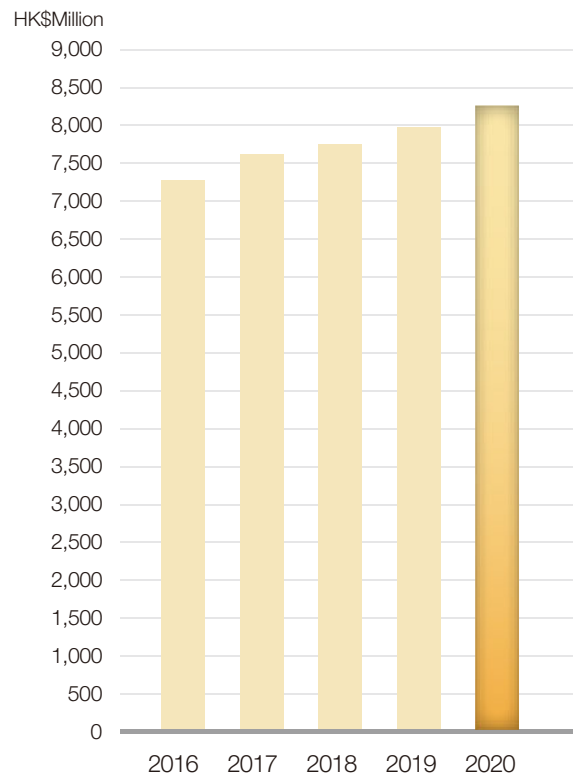
Five-year Financial Summary



Profit



Equity



Five-year Financial Summary

2020 FINANCIAL HIGHLIGHTS

Profit for the year:	HK\$397.0 million
Gross loans and advances and trade bills:	HK\$26,175.7 million
Total deposits:	HK\$34,613.9 million
Equity:	HK\$8,265.1 million
Earnings per share:	
Basic	HK\$0.362
Diluted	HK\$0.362
Total dividends per share:	HK\$0.15

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.

	2020	2019	2018	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	7,996,584	5,977,549	5,510,650	6,386,628	6,479,604
Gross loans and advances and trade bills	26,175,702	28,754,802	29,974,965	29,564,240	29,080,723
Held-to-maturity investments at amortised cost	–	–	–	5,671,749	5,693,861
Gross held-to-collect debt securities at amortised cost	6,735,937	6,079,370	6,203,572	–	–
Goodwill	2,774,403	2,774,403	2,774,403	2,774,403	2,774,403
Other assets	1,755,697	1,636,716	1,287,300	1,379,699	1,203,944
Total assets	45,438,323	45,222,840	45,750,890	45,776,719	45,232,535
Deposits and balances of banks and other financial institutions at amortised cost	421,138	787,235	572,712	1,123,792	929,392
Customer deposits at amortised cost	34,192,747	33,917,425	35,284,322	33,984,095	33,721,280
Certificates of deposit issued at amortised cost	–	–	–	753,293	1,072,778
Dividends payable	131,750	164,688	186,646	175,667	142,729
Unsecured bank loans at amortised cost	1,575,018	1,542,693	1,444,614	1,581,852	1,606,143
Other liabilities	852,529	833,413	514,786	536,769	480,908
Total liabilities	37,173,182	37,245,454	38,003,080	38,155,468	37,953,230
Equity	8,265,141	7,977,386	7,747,810	7,621,251	7,279,305
Profit for the year	396,997	466,340	510,478	503,514	406,561
Basic earnings per share (HK\$)	0.362	0.425	0.465	0.459	0.370
Diluted earnings per share (HK\$)	0.362	0.425	0.465	0.459	0.370



Chairman's Statement

I am pleased to report the financial results of the Group for the financial year ended 31 December 2020.

Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman



FINANCIAL PERFORMANCE

For the year ended 31 December 2020, the Group recorded a profit after tax of HK\$397.0 million, representing a decrease of HK\$69.3 million or 14.9% when compared to the previous year. The Group's basic earnings per share for 2020 was HK\$0.36 (2019: HK\$0.42).

Total operating income of the Group decreased by HK\$47.5 million or 3.0% to HK\$1.56 billion mainly from a decrease in net interest income amidst the low interest rate environment and subdued loan demand. Total operating expenses (before changes in fair value of investment properties) decreased by HK\$26.8 million or 3.0% to HK\$858.7 million, mainly due to decrease in performance-related staff costs and marketing expenses.

Fair value of investment properties decreased by HK\$33.4 million to HK\$357.9 million, against a revaluation gain of HK\$62.6 million in the previous year.

Credit loss expenses decreased by HK\$36.5 million or 16.4% to HK\$185.6 million as compared to HK\$222.1 million in the previous year. The decrease of credit loss expenses was mainly due to decrease in provisions for unsecured consumer financing loans driven by the reduction in the unsecured lending exposures of the Group and the lower bad debts.

BUSINESS PERFORMANCE

The Group's total loans and advances (including trade bills) decreased by HK\$2.57 billion or 8.9% to HK\$26.18 billion as at 31 December 2020 from HK\$28.75 billion as at 31 December 2019. The decline in loans and advances was mainly due to the subdued loan demand under pandemic situation and the prudential credit risk management in credit approval for new loans and advances. The Group's customer deposits increased by HK\$0.27 billion or 0.8% to HK\$34.19 billion as at 31 December 2020 from HK\$33.92 billion as at 31 December 2019.

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\$1.91 billion or 8.6% to HK\$20.38 billion as at 31 December 2020 from HK\$22.29 billion as at 31 December 2019 and increase in customer deposits (excluding a deposit from a subsidiary) by HK\$0.70 billion or 2.5% to HK\$29.27 billion as at 31 December 2020 from HK\$28.57 billion as at 31 December 2019.

Chairman's Statement

BUSINESS PERFORMANCE (Continued)

Public Finance Limited ("Public Finance"), a wholly-owned subsidiary of Public Bank (Hong Kong), recorded a decrease in total loans and advances of HK\$682.3 million or 11.1% to HK\$5.46 billion as at 31 December 2020 from HK\$6.14 billion as at 31 December 2019 and decrease in customer deposits by HK\$414.4 million or 7.4% to HK\$5.16 billion as at 31 December 2020 from HK\$5.58 billion as at 31 December 2019.

DIVIDENDS

The Board of Directors (the "Board") had declared a first interim dividend of HK\$0.03 per share in June 2020 and a second interim dividend of HK\$0.12 per share in December 2020, making a total dividend declared for the year of HK\$0.15 per share (2019: HK\$0.20 per share). The total dividend amounted to HK\$164.7 million for 2020.

BRANCH NETWORK AND BUSINESS STRATEGY

As at 31 December 2020, 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 it 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 expand 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. Moving forward, the Group will also allocate more resources to drive the digitalisation process of its banking services and business growth from electronic channels. 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

During the year under review, the economy of Hong Kong was adversely affected by the outbreak of coronavirus disease (“COVID-19”) and entered into a recession with negative Gross Domestic Product (“GDP”) growth and escalation of unemployment rate to a peak in the past 15 years. The pandemic outbreak of COVID-19 also threatened the global economic outlook, causing the US Federal Reserve to cut the federal funds rate to near 0%. Market interest rates were falling with lower return on interest-bearing assets. Financial market became more volatile amidst pandemic situation, elevated Sino-US political and trade disputes, as well as high volatilities of fund flows from the easing monetary policies adopted by nations.

Under the aforesaid challenging operating environment in the year under review, the domestic credit demand and profitability of financial institutions in banking sector of Hong Kong were affected. The Group conducted its loan and customer deposit businesses cautiously at reasonable interest yields and costs to minimise associated credit and liquidity risks. The Group also diversified revenue sources into fee-based businesses amidst weaker consumer sentiment and subdued corporate loan demands and will continue to pursue long-term business growth prudently with sustainable profitability growth.

FINANCIAL REVIEW

Revenue and earnings

For the year ended 31 December 2020, the Group recorded a profit after tax of HK\$397.0 million, representing a decrease of HK\$69.3 million or 14.9% when compared to the previous year.

The Group’s basic earnings per share for 2020 was HK\$0.36. The Board declared a first interim dividend of HK\$0.03 per share in June 2020 and a second interim dividend of HK\$0.12 per share in December 2020. The Board did not recommend the payment of a final dividend, making a total dividend for the year of HK\$0.15 per share (2019: HK\$0.20 per share).

For the year under review, the Group’s interest income decreased by HK\$302.6 million or 15.5% to HK\$1.65 billion from lower yields on loan portfolio, debt securities and bank placements whilst the Group’s interest expense decreased by HK\$175.3 million or 29.4% to HK\$420.3 million mainly due to lower funding costs of customer deposits. Consequently, the Group’s net interest income decreased by HK\$127.3 million or 9.4% to HK\$1.23 billion. The lower net interest income in the year under review was mainly due to the subdued loan demand and the compression of net interest margin amidst the low interest rate environment. Other operating income from stockbroking, foreign exchange earnings and other business activities of the Group increased by HK\$79.8 million or 32.6% to HK\$325.0 million.

Total operating expenses (before changes in fair value of investment properties) decreased by HK\$26.8 million or 3.0% to HK\$858.7 million, mainly due to decrease in performance-related staff costs and marketing expenses.

Fair value of investment properties decreased by HK\$33.4 million during the year under review, whilst a revaluation gain of HK\$62.6 million was recognised in the previous year.

Credit loss expenses decreased by HK\$36.5 million or 16.4% to HK\$185.6 million in 2020 as compared to 2019 mainly due to decrease in provisions for unsecured consumer financing loans driven by the reduction in the unsecured lending exposures of the Group and the lower bad debts in the current year.

Management Discussion and Analysis

FINANCIAL REVIEW (Continued)

Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) decreased by HK\$2.57 billion or 8.9% to HK\$26.18 billion as at 31 December 2020 from HK\$28.75 billion as at 31 December 2019. Customer deposits increased by HK\$0.27 billion or 0.8% to HK\$34.19 billion as at 31 December 2020 from HK\$33.92 billion as at 31 December 2019.

As at 31 December 2020, the Group's total assets stood at HK\$45.44 billion.

Key financial and business performance indicators

The Group's return on equity, based on profit after tax to average equity, stood at a healthy level of 4.9% in the year under review. Due to the low interest environment, the Group's net interest margin was under downward pressure, but the Group expanded its fee-based businesses in stockbroking and insurance business operations and implemented effective cost control to achieve a reasonable return in the challenging year of 2020. 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.

The Group's cost to income ratio was maintained at a satisfactory level of 55.1%, 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 implement digital transformation and strengthen security controls against risks of potential cyber threats.

The Group's impaired loans to total loans ratio stood at a satisfactory level of 0.85% as at 31 December 2020, indicating the loan asset quality at group level was well-managed amidst economic downturn. 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.

Business performance of key subsidiaries

Public Bank (Hong Kong)

During the year under review, total loans and advances (including trade bills) of Public Bank (Hong Kong), a licensed bank, recorded a decrease of HK\$1.91 billion or 8.6% to HK\$20.38 billion as at 31 December 2020 from HK\$22.29 billion as at 31 December 2019. Customer deposits (excluding a deposit from a subsidiary) increased by HK\$0.70 billion or 2.5% to HK\$29.27 billion as at 31 December 2020 from HK\$28.57 billion as at 31 December 2019. Impaired loans to total loans ratio of Public Bank (Hong Kong) increased by 0.28% to 0.58% as at 31 December 2020 from 0.30% as at 31 December 2019.

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, expedite the pace of its digital transformation and develop its banking and financial services and stockbroking businesses.

Management Discussion and Analysis

FINANCIAL REVIEW (Continued)

Business performance of key subsidiaries (Continued)

Public Finance

Total loans and advances of Public Finance, a deposit-taking company, recorded a decline of HK\$682.3 million or 11.1% to HK\$5.46 billion as at 31 December 2020 from HK\$6.14 billion as at 31 December 2019. Customer deposits decreased by HK\$414.4 million or 7.4% to HK\$5.16 billion as at 31 December 2020 from HK\$5.58 billion as at 31 December 2019. Impaired loans to total loans ratio of Public Finance decreased by 0.29% to 1.69% as at 31 December 2020 from 1.98% as at 31 December 2019.

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

Segmental information

The Group's businesses comprise three main segments: (i) retail and commercial banking businesses, (ii) wealth management services, stockbroking and securities management, and (iii) other businesses. For the year under review, 93.7% of the Group's operating income and 97.4% of the profit before tax were contributed by retail and commercial banking businesses. When compared to the previous year, the Group's operating income from retail and commercial banking businesses decreased by HK\$77.4 million or 5.0% to HK\$1.46 billion mainly due to the decrease in net interest income of the Group, whilst the Group's operating income from wealth management services, stockbroking and securities management increased by HK\$31.4 million or 60.3% to HK\$83.3 million. Profit before tax from retail and commercial banking businesses decreased by HK\$1.4 million or 0.29% to HK\$467.6 million, whilst profit before tax from wealth management services, stockbroking and securities management increased by HK\$17.0 million or 59.5% to HK\$45.6 million during the year under review.

Group's branch network

As at 31 December 2020, Public Bank (Hong Kong) had a branch network of 32 branches in Hong Kong and 5 branches in Shenzhen in the PRC to provide a broad range of commercial and retail banking services. Public Finance had a network of 44 branches in Hong Kong. Winton Financial, another operating subsidiary of the Company 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. In total, the Group had a combined branch network of 84 branches as at 31 December 2020 to serve its customers.

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 71.4% 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) and its subsidiaries recorded a profit of HK\$419.9 million on consolidated basis, which represented 6.4% in regard to the return of the Company's investment. Dividend income received from Public Bank (Hong Kong) was HK\$156.7 million during the year under review. 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.

Management Discussion and Analysis

FINANCIAL REVIEW (Continued)

Contingent liabilities and commitments

The Group had 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 2020, 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 2020.

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.

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 retail and commercial banking businesses and its consumer financing 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\$1.58 billion as at the end of 2020. 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 2020, which was relatively the same as compared to the position of 31 December 2019. The bank borrowings as at 31 December 2020 had remaining maturity periods of less than two 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 21.3% and 22.1% respectively as at 31 December 2020.

The Group continues to safeguard its capital adequacy position and manage key risks cautiously.

Management Discussion and Analysis

OPERATIONAL REVIEW (Continued)

Asset quality and credit management

The Group's impaired loans to total loans ratio increased by 0.18% to 0.85% as at 31 December 2020 from 0.67% as at 31 December 2019. The Group will continue to manage credit risk 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 2020, the Group's staff force stood at 1,363 employees. For the year ended 31 December 2020, the Group's total staff related costs amounted to HK\$535.0 million.

PROSPECTS

The economic outlook and operating environment of Hong Kong are anticipated to remain challenging in year 2021. In light of the prolonged pandemic situation in Hong Kong and the high unemployment rate, it is anticipated that credit charge on its consumer loans for the Group would remain under pressure in year 2021. The Group has extended the application timeline for debt relief measures (e.g. principal moratorium or extension of due dates) to eligible borrowers to support their business operations and alleviate their financial difficulties in the tough pandemic situation. The risk appetites for corporate investments/business expansion and individuals' private consumption are expected to remain conservative in the near term with weak loan demand and loan growth momentum in Hong Kong.

Management Discussion and Analysis

PROSPECTS (Continued)

Competition in the banking and financing industry in Hong Kong is also expected to be intensified with the entrance of virtual banks, which 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 increasing 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 seek sustainable business expansion and market penetration, and to pursue profitability growth by diversification of income streams, improvement of net interest margin, 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.

The Group will continue to seek loans at reasonable yields under the low interest rate environment and manage down its funding cost by increasing demand and savings deposits. 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 expand its retail and commercial banking businesses and its consumer financing business through its extensive branch network of Public Bank (Hong Kong), Public Finance and Winton Financial, supporting its growth in loan developments, deposit-taking and fee-based businesses, and implementing appropriate marketing strategies at reasonable costs. The Group will continue to optimise and refine the existing products and services in the near term to grow its retail and commercial lending businesses and consumer financing business. Moving forward, the Group will also allocate more resources to drive the digitalisation process of its financial services and business growth from electronic channels.

Barring unforeseen circumstances, the Group will strive to maintain its banking and financing businesses and improve its financial performance in year 2021. 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 2020 AGM of the Company held in March 2020 due to other engagement. The 2020 AGM was chaired by the Executive Director, Mr. Tan Yoke Kong, with the consent of members present. Due to the outbreak of COVID-19, the Chairmen of the Company’s Audit Committee and Nomination and Remuneration Committee, and the respective Chairmen of the Board Committees of Public Bank (Hong Kong) and Public Finance who are based in Malaysia also participated in the 2020 AGM by means of tele-conferencing to answer questions raised therein, if any.

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 2020, 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 2020 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 Dato' Chang Kat Kiam Chong Yam Kiang Quah Poh Keat
Independent Non-Executive Directors	: Lai Wan, Co-Chairman Lee Chin Guan Tang Wing Chew
Executive Director	: Tan Yoke Kong

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. On 29 March 2020, Mr. Tang Wing Chew was re-designated from Independent Non-Executive Director to Non-Independent Non-Executive Director of Public Bank Berhad ("Public Bank"), the Company's holding company. Having considered the current and future roles and duties of Mr. Tang 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 re-designation of Mr. Tang as a Non-Independent Non-Executive Director of Public Bank will not affect the independence of Mr. Tang as an Independent Non-Executive Director of the Company under Rule 3.13(7) of the Listing Rules. The Independent Non-Executive Directors have given annual confirmations of their independence to the Company, and the Company considers these 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. No relationship (including financial, business, family or other material/relevant relationship(s)), if any, is between the Board members and in particular, between the Chairman/Co-Chairman of the Board and the Chief Executive.

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.

A Director is required to abstain from deliberations and decisions of the Board on matters where he is the interested party, and he does not exercise any influence over the Board in respect of the matter. In the event a corporate proposal is required to be approved by shareholders, interested Directors are required to abstain from voting on their shares held in the Company on the shareholders’ resolutions pertaining to the corporate proposal, and will further undertake to ensure that persons connected to them similarly abstain from voting on the relevant shareholders’ resolutions.

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.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Board Process (Continued)

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.

Details of Directors' attendance at the Board meetings, Board Committee meetings and AGM in 2020 are set out as follows:

Directors	Number of meetings attended/held in 2020					
	Board Committees					General Meeting
	Board	Audit Committee	Nomination and Remuneration 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	3	6	6	1
Non-Executive Directors						
Tan Sri Dato' Sri Dr. Teh Hong Piow (Chairman)	7/9 ^Δ	–	–	–	–	0/1
Dato' Chang Kat Kiam	9/9	7/7*	3/3*	6/6	6/6	1/1
Chong Yam Kiang	9/9	7/7 [#]	–	–	6/6 [#]	1/1
Quah Poh Keat	9/9	7/7	3/3	6/6	6/6	1/1
Independent Non-Executive Directors						
Lai Wan (Co-Chairman)	9/9 ^Δ	7/7	3/3 ^Δ	6/6	6/6	1/1
Lee Chin Guan	9/9	7/7	3/3	6/6 ^Δ	6/6 ^Δ	1/1
Tang Wing Chew	9/9	7/7 ^Δ	3/3	6/6	6/6	1/1
Executive Director						
Tan Yoke Kong	9/9	7/7 [#]	3/3*	6/6 [#]	–	1/1
Average Attendance Rate	97%	100%	100%	100%	100%	88%

^Δ Chairman of Board/Board Committee

* By invitation

In attendance



Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Board Process (Continued)

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.

During the year, the Independent Non-Executive Directors also met with the external auditors in the absence of Executive Director 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 Director 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 and ensuring that good corporate governance practices and procedures are established, 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 Nomination and Remuneration Committee is responsible for assessing the candidate for appointment as Director and submit recommendation to the Board for consideration and approval.

The Bye-laws of the Company also provides that at every AGM of the Company, one-third of the Directors for the time being or the number nearest to one-third, and those Directors newly appointed subsequent to the preceding AGM, shall retire from office and shall be eligible for re-election. The performance of those Directors who are subject to re-election at the AGM of the Company will be assessed by the Nomination and Remuneration Committee and recommended to the Board to decide the tabling of the proposed re-election of Directors for shareholders' approval at the AGM.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Appointment and Re-election of Directors (Continued)

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.

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 which included, among others:

- development of national and global economy;
- corporate governance issues;
- regulatory updates; and
- banking industry development trend, etc.



Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Directors' Training and Professional Development (Continued)

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

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.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

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.

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. The updated Policy sets out the procedures, process and criteria for identifying and recommending candidates for election to the Board of Directors. No candidate was nominated for directorship in 2020.

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.



Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Corporate Governance Policy (Continued)

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.

Corporate Governance Report

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) Corporate Social Responsibility Policy; (iv) Director Attendance Policy; (v) Succession Planning Policy; (vi) Shareholders' Communication Policy; and (vii) Inside Information Disclosure Policy.
5. Conducted annual review of (i) Policy on Payment of Dividend; (ii) Code for Securities Transactions by Directors and Relevant Employees; (iii) Division of Responsibilities between the Chairman and the Chief Executive; and (iv) Directors' Code of Ethics.
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 practices.
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.

Corporate Governance Report

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 2019 and for the six months ended 30 June 2020.
2. Reviewed the audit progress, findings and recommendations of Internal Audit Departments 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 2020 and proposed the re-appointment of Messrs. Ernst & Young as the external auditors for 2020.
4. Approved the internal audit plan for 2021 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 2019.
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 2019 audit results.
8. Reviewed the validation results of Hong Kong Financial Reporting Standard 9 Model.



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 Risk Assessment and Audit Planning Frameworks of Public Bank (Hong Kong) and Public Finance.
11. Noted the proposed frequency and scope of internal audit's review on the management of money laundering/terrorism financing risks of Public Bank (Hong Kong) and Public Finance.
12. Noted the revised Whistleblowing Policy and Procedures of Public Bank (Hong Kong) and Public Finance and cases reported, if any.
13. Noted the revised Internal Audit Charters of Public Bank (Hong Kong) and Public Finance.
14. Noted the 2021 Internal Audit Plans of Public Bank (Hong Kong) and Public Finance.
15. Noted the Internal Audit's Annual Assurance Statements for 2020 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 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 as follows:

1. To assess and recommend to the Board suitable persons for appointment as Directors, Board Committee members, Chief Executive and Senior Management positions.
2. In the case of persons for appointment as Independent Non-Executive Director, to assess that the person meets the criteria of Independent Non-Executive Director as may be defined in the Listing Rules of the Stock Exchange, and also to perform the annual assessment.
3. To oversee the overall composition of the Board in terms of appropriate size, required mix of skills, experience and core competence, and adequacy of 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 Company's corporate strategy.
4. To recommend to the Board the succession planning for Directors, in particular the Chairman, Chief Executive and Senior Management.
5. To ensure that all Directors receive appropriate continuous training programmes.

Corporate Governance Report

BOARD COMMITTEES (Continued)

Nomination and Remuneration Committee (Continued)

6. To review annually and recommend to the Board the remuneration policy and structure for the Directors, Chief Executive and Senior Management.
7. To oversee the performance evaluation of the Executive Directors, Chief Executive and Senior Management and recommend to the Board their remuneration packages, promotions, specific adjustments in remuneration and/or reward payments, if any.
8. To make recommendations to the Board on the remuneration of Non-executive Directors and to ensure that the level of remuneration for Non-Executive Directors are linked to their level of responsibilities undertaken and contributions to the effective functioning of the Board.
9. 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.
10. To review and recommend to the Board the compensation arrangements relating to dismissal or removal of Directors for misconduct.
11. Keeps 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 reviews and recommends changes to the Board whenever necessary.
12. To ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

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

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

During the year, the Nomination and Remuneration 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 2019; assessment of independence of the Independent Non-Executive Directors; time commitment disclosure of the Directors; training attended by the Directors; the terms of reference of the Nomination and Remuneration Committee; and assessment of independence of Mr. Tang Wing Chew under Rule 3.13 of the Listing Rules arising from his re-designation from Independent Non-Executive Director to Non-Independent Non-Executive Director of Public Bank. 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 2021; (iv) employment contract extension of Senior Management staff; (v) Succession Planning Policy for Senior Management positions; (vi) Directors' fees for 2019; (vii) the annual salary review for employees; (viii) payment of discretionary bonus and merit bonus for 2019; and (ix) annual review of Code for Securities Transactions by Directors and Relevant Employees of the Group, Policy for Division of Responsibilities between the Chairman and the Chief Executive and the Directors' Code of Ethics.



Corporate Governance Report

BOARD COMMITTEES (Continued)

Nomination and Remuneration Committee (Continued)

The emolument payable to Directors depends on their respective contractual terms under employment contracts, if any, and as recommended by the Nomination and 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 Nomination and Remuneration Committees, both having almost the same composition of members and the terms of reference are similar as those of the Company's Nomination and Remuneration Committee. These Committees held meetings to perform their functions as specified in the terms of reference during the year.

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 2020, 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.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT (Continued)

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	4,155
Non-audit services*	308
Total:	4,463

* 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.

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.



Corporate Governance Report

ACCOUNTABILITY AND AUDIT (Continued)

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

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 Risk Management 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 was chaired by an Independent Non-Executive Director.

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 (Continued)

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, cyber security 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 review emerging risks and results of comprehensive risk assessment.
5. To ensure infrastructure, resources and systems are in place for compliance assessment and 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.
6. To approve the appointment, resignation or dismissal of the Head of Compliance and Head of Risk Management, and evaluate their performance and remuneration.
7. 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.
8. To oversee Senior Management's actions to ensure consistency with the risk strategy and policies approved by the Board including the risk appetite.
9. To approve policies and methodologies in assessing the compliance profile.
10. To review and concur with the revision of the compliance policy and to oversee its implementation.

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 were tabled to their respective Boards for noting and for action where appropriate. Such minutes were also tabled to the Board of the Company for noting.

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 (Continued)

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, Cybersecurity 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, risk limit settings and the terms of reference of the RMCs and the related specialised committees.

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, cyber security risk and other risks.

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 2020 and its review of the risk management and internal control systems are set out in “Board Committees” section on pages 27 to 30 of the Corporate Governance Report in this annual report.



Corporate Governance Report

ACCOUNTABILITY AND AUDIT (Continued)

Key Risk Management and Internal Control Processes (Continued)

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 Policies and Procedures 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.

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 2020 to 31 December 2020. 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 2021. In addition, the Board has received a Statement of Assurance from the Executive Director and Chief Executive and the Financial Controller 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 2020 to 31 December 2020. 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.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT (Continued)

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).
- 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.



Corporate Governance Report

ACCOUNTABILITY AND AUDIT (Continued)

Other Committees Established in the Group (Continued)

- Nomination and Remuneration Committees 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 Director(s), 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.
- 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.

Corporate Governance Report

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (Continued)

The Company's last AGM was held on Friday, 20 March 2020 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, participated in the 2020 AGM.

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 2019 and 2020, which were well before the time limits as laid down in the Listing Rules. The notice of 2020 AGM 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 2020, the last trading day in 2020, was HK\$2,305,626,998 (issued share capital: 1,097,917,618 shares at closing market price: HK\$2.1 per share). The public float is around 26.8%.

The 2021 AGM will be held at Room 3-5, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Thursday, 22 April 2021 at 11:00 a.m.

CONSTITUTIONAL DOCUMENTS

There was no change to the Company's Memorandum of Association and Bye-laws during the financial year 2020.

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.

Pursuant to the policy, the Company mainly considers the level of unappropriated earnings, the availability of investment that could generate reasonable returns to the shareholders, and the capital and liquidity position of the Company in proposing dividend payments.

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.



Corporate Governance Report

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.

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.

Corporate Governance Report

SHAREHOLDERS' RIGHTS (Continued)

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 90, 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 and was conferred the position of Chairman Emeritus and Adviser of Public Bank with effect from 1 January 2019. Tan Sri Teh has 71 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 Non-Executive Chairman of the Boards of Directors and Board Executive Committees of Public Bank (Hong Kong) and Public Finance. He holds directorships in several other companies in the Public Bank Group and is the Non-Independent Non-Executive 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 Teh 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 77, has 47 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 68, has 39 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 Executive Director and Chief Executive 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 an Executive Director and 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 ("The DTC Association") and as a member of the Deposit-taking Companies Advisory Committee of the HKMA 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.

Dato' Chang Kat Kiam

Dato' Chang Kat Kiam, aged 66, has 46 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 (Finance) from University of Hull, United Kingdom and is a Chartered Banker of the Chartered Banker Institute, United Kingdom and Asian Institute of Chartered Bankers.

Brief Biography of Directors

Mr. Chong Yam Kiang

Mr. Chong Yam Kiang, aged 70, has 51 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 and also a director of certain subsidiaries of the Company. He is currently a member of the Deposit-taking Companies Advisory Committee of the HKMA and an Executive Committee member of The DTC Association.

Mr. Quah Poh Keat

Mr. Quah Poh Keat, aged 68, 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.

Mr. Lee Chin Guan

Mr. Lee Chin Guan, aged 62, 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 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. 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 (Honours) 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 76, has 54 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 a Non-Independent Non-Executive Director of Public Bank and an Independent Non-Executive Director of 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 was also an Independent Non-Executive Director of an insurance company and Cagamas Berhad (National Mortgage Corporation of Malaysia).



Our Corporate Family

Corporate Events & Recreational Activities



1. The 29th Annual General Meeting of Public Financial Holdings Limited held in March 2020.
2. "PB We Care Team" participating in "2019/2020 Hong Kong & Kowloon Walk for Millions" and raising funds to support family and child welfare services in Hong Kong.
3. "PB We Care Team" taking group photo at the starting point of the "2019/2020 Hong Kong & Kowloon Walk for Millions".
4. Staff generously donating food items and anti-pandemic products to the vulnerable groups during the outbreak of COVID-19.
5. "PB We Care Team" joining the volunteering visit during Dragon Boat Festival to send regards to the singleton elderly in the festive occasion.
6. "PB We Care Team" delivering gift packs to the elderly at the Dragon Boat Festival.



7. A group photo of branch staff with Senior Management on the first day of business at the new location of Shau Kei Wan Branch in February 2020.
8. Branch relocation to Wanchai Commercial Centre in May 2020.
9. Relocation of Tseung Kwan O Branch in August 2020.
10. Public Bank (Hong Kong) and AIA Hong Kong organised a live-streamed "PBHK-AIA Sales Award Presentation 2020".
11. Branch staff virtually attended the "PBHK-AIA Sales Award Presentation 2020".

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大眾財務有限公司 PUBLIC FINANCE LIMITED

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The Company is an investment and property holding company. The principal activities of its subsidiaries during the year were the provision of a comprehensive range of banking and financial 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 2020 and the Group's financial position as at that date are set out in the financial statements on pages 62 to 156.

The first interim dividend of HK\$0.03 (2019: HK\$0.05) per ordinary share was paid on Wednesday, 5 August 2020. The second interim dividend of HK\$0.12 (2019: HK\$0.15) per ordinary share was declared on Tuesday, 29 December 2020 and will be payable on Friday, 26 February 2021 to shareholders of the Company whose names appear on the register of members on Friday, 29 January 2021. The Directors do not recommend the payment of a final dividend for the year (2019: 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

A fair review of the Group's business, particulars of important events affecting the Group that have occurred since the year end of 2020 (if any), and indication of likely future development in the Group's business are provided in the "Chairman's Statement", "Management Discussion and Analysis" and "Notes to Financial Statements" of this annual report. An analysis using key financial performance indicators is set out in "Management Discussion and Analysis" while the principal risks and uncertainties are contained in the "Notes to Financial Statements" of this annual report. Compliance with relevant laws and regulations that have a significant impact on the Group can be found throughout the annual report, in particular, the "Corporate Governance Report". 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 around mid-May 2021. The above sections form part of this Report of the Directors.

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.

Report of the Directors

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 2020, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$3,436,429,000 (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.

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
Dato' Chang Kat Kiam
Chong Yam Kiang
Quah Poh Keat

Independent Non-Executive Directors:

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

Executive Director:

Tan Yoke Kong

In accordance with bye-law 112(A) and (B) of the Company's Bye-laws, Tan Sri Dato' Sri Dr. Teh Hong Piow, Mr. Tan Yoke Kong and Dato' Chang Kat Kiam shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM.



Report of the Directors

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 30 to 31 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.

Report of the Directors

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 2020, 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

Interests in	Name of Directors	Number of ordinary shares				Total	Percentage of interests in the issued share capital %
		Directly beneficially owned	Through spouse or minor children	Through controlled corporations	Other interests		
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
	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
	Dato' Chang Kat Kiam	125,636	-	-	-	125,636	0.0032
	Lee Chin Guan	200,030	-	-	-	200,030	0.0052
3. Campu Lonpac Insurance Plc, a fellow subsidiary	Lai Wan	-	18,654	-	-	18,654	0.0005
	Tan Sri Dato' Sri Dr. Teh Hong Piow	-	-	3,850,000	-	3,850,000	55.0000

* Jointly held with another person

Report of the Directors

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 2020, 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 18 to 43 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\$17,000 (2019: HK\$9,000).

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company comprises three Independent Non-Executive Directors, namely Mr. Tang Wing Chew, Mr. Lai Wan and Mr. Lee Chin Guan, and one Non-Executive Director, namely Mr. Quah Poh Keat. The 2020 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 2020 ANNUAL REPORT

The 2020 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

15 January 2021

Independent Auditor's Report



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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 156, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 (“HKSA”) 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 matters

Goodwill

Refer to the summary of significant accounting policies in note 5, significant accounting estimates in note 6 and the disclosures related to 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, amongst 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.

In respect of the cash flow forecast, we understood the basis of preparing the forecasts and key assumptions therein. We performed back testing of the cash flow projections of previous forecasts to evaluate the accuracy of management's forecasting process. We compared the growth rates used to extrapolate the cash flows by comparing against internal information and external economic and market data.

In respect of the discount rate, we formed an independent view of the appropriate discount rate to be applied to the calculation of value-in-use and compared to that used by the Group.

We evaluated the sensitivity of the model output to multiple reasonably alternative assumptions to understand in what scenarios an impairment may be required.

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

Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

Key audit matters (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 57% 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 design and 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 with a particular focus on the impact of COVID-19. 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. In light of COVID-19, we included borrowers which are more vulnerable to the pandemic in our risk-based sampling approach to perform loan review procedures.

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 HKSAAs 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 HKSAAs, 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.

Independent Auditor's Report

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, actions taken to eliminate threats or safeguards applied.

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

15 January 2021



Consolidated Income Statement

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Interest income	8	1,653,284	1,955,887
Interest expense	8	(420,312)	(595,615)
NET INTEREST INCOME		1,232,972	1,360,272
Other operating income	9	324,960	245,119
OPERATING INCOME		1,557,932	1,605,391
Operating expenses	10	(858,654)	(885,454)
Changes in fair value of investment properties		(33,376)	62,560
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		665,902	782,497
Credit loss expenses	11	(185,605)	(222,118)
PROFIT BEFORE TAX		480,297	560,379
Tax	14	(83,300)	(94,039)
PROFIT FOR THE YEAR		396,997	466,340
ATTRIBUTABLE TO:			
Owners of the Company		396,997	466,340
EARNINGS PER SHARE (HK\$)	16		
Basic		0.362	0.425
Diluted		0.362	0.425

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
PROFIT FOR THE YEAR	396,997	466,340
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	55,446	(14,575)
Surplus on revaluation of properties	–	3,982
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	452,443	455,747
ATTRIBUTABLE TO:		
Owners of the Company	452,443	455,747



Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
ASSETS			
Cash and short term placements	17	6,224,637	4,444,441
Placements with banks and financial institutions maturing after one month but not more than twelve months	18	1,771,165	1,532,536
Derivative financial instruments		25,751	15,445
Loans and advances and receivables	19	26,078,500	28,630,953
Equity investments at fair value through other comprehensive income	20	6,804	6,804
Held-to-collect debt securities at amortised cost	21	6,735,263	6,078,760
Investment properties	22	357,940	391,316
Property and equipment	23	191,142	168,169
Land held under finance leases	24	680,165	688,036
Right-of-use assets	25	112,918	128,668
Deferred tax assets	32	34,603	35,233
Tax recoverable		1,772	–
Goodwill	27	2,774,403	2,774,403
Intangible assets	28	718	718
Other assets	26	442,542	327,358
TOTAL ASSETS		45,438,323	45,222,840
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		421,138	787,235
Derivative financial instruments		2,682	4,651
Customer deposits at amortised cost	30	34,192,747	33,917,425
Dividends payable	15	131,750	164,688
Unsecured bank loans at amortised cost	31	1,575,018	1,542,693
Lease liabilities	25	118,200	132,944
Current tax payable		41,273	63,253
Deferred tax liabilities	32	45,358	41,186
Other liabilities	26	645,016	591,379
TOTAL LIABILITIES		37,173,182	37,245,454

Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital	33	109,792	109,792
Reserves	34	8,155,349	7,867,594
TOTAL EQUITY		8,265,141	7,977,386
TOTAL EQUITY AND LIABILITIES		45,438,323	45,222,840

Lai Wan
Director

Tan Yoke Kong
Director



Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Note	2020 HK\$'000	2019 HK\$'000
TOTAL EQUITY			
Balance at the beginning of the year		7,977,386	7,741,223
Profit for the year		396,997	466,340
Other comprehensive income in translation reserve		55,446	(14,575)
Other comprehensive income in property revaluation reserve		–	3,982
Total comprehensive income for the year		452,443	455,747
Dividends declared on shares	15	(164,688)	(219,584)
Balance at the end of the year		8,265,141	7,977,386

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		480,297	560,379
Adjustments for:			
Depreciation of property and equipment and land held under finance leases	10	41,306	35,000
Depreciation of right-of-use assets	10	64,092	66,605
Net (gains)/losses on disposal of property and equipment	9	(3)	101
Gain on termination of leases	9	(1,342)	(1,212)
Other interest expenses	8	3,371	3,705
(Decrease)/increase in credit loss expenses for loans and advances and receivables		(37,855)	23,870
Increase in credit loss expenses for held-to-collect debt securities at amortised cost and bank placements		274	24
Dividend income from listed investments	9	(156)	(103)
Dividend income from unlisted investments	9	(35)	(35)
Decrease/(increase) in fair value of investment properties		33,376	(62,560)
Exchange differences		53,730	(14,126)
Payment of dismantling costs		(280)	(188)
Profits tax paid		(100,473)	(33,080)
Operating profit before changes in operating assets and liabilities		536,302	578,380
Decrease in operating assets:			
(Increase)/decrease in placements with banks and financial institutions		(770,123)	656,290
Decrease in loans and advances and receivables		2,590,308	1,222,756
Increase in held-to-collect debt securities at amortised cost		(759,649)	(74,948)
Increase in other assets		(115,184)	(161,015)
Increase in derivative financial instruments		(10,306)	(12,904)
		935,046	1,630,179
Decrease in operating liabilities:			
(Decrease)/increase in deposits and balances of banks and other financial institutions at amortised cost		(366,097)	214,523
Increase/(decrease) in customer deposits at amortised cost		275,322	(1,366,897)
Decrease in derivative financial instruments		(1,969)	(2,624)
Increase in other liabilities		53,741	130,914
		(39,003)	(1,024,084)
Net cash inflow from operating activities		1,432,345	1,184,475



Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	23	(56,549)	(49,289)
Sales proceeds from disposal of property and equipment		144	87
Dividends received from listed investments		156	103
Dividends received from unlisted investments		35	35
Net cash outflow from investing activities		(56,214)	(49,064)
CASH FLOWS FROM FINANCING ACTIVITIES			
New unsecured bank loans		67,521	136,414
Repayment of unsecured bank loans		(35,196)	(38,335)
Repayment of lease liabilities	25	(65,000)	(67,909)
Dividends paid on shares		(197,626)	(241,542)
Net cash outflow from financing activities		(230,301)	(211,372)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,145,830	924,039
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		5,028,421	4,104,382
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		6,174,251	5,028,421
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand	39	1,219,086	1,128,726
Money at call and short notice with an original maturity within three months		4,360,617	3,048,856
Placements with banks and financial institutions with an original maturity within three months		464,568	617,777
Held-to-collect debt securities at amortised cost with an original maturity within three months		129,980	233,062
		6,174,251	5,028,421
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		(533,919)	(620,716)
Interest received		1,683,016	1,965,628

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

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 1 January 2020	1,542,693	164,688	132,944	1,840,325
Changes from financing cash flows:				
Proceeds from new unsecured bank loans	67,521	–	–	67,521
Repayment of unsecured bank loans	(35,196)	–	–	(35,196)
Dividends paid on ordinary shares	–	(197,626)	–	(197,626)
Repayment of lease liabilities	–	–	(65,000)	(65,000)
Total changes from financing cash flows	32,325	(197,626)	(65,000)	(230,301)
Other changes:				
Dividends declared on ordinary shares	–	164,688	–	164,688
Additions to lease liabilities	–	–	49,827	49,827
Interest expense on lease liabilities	–	–	3,250	3,250
Reassessment on lease liabilities	–	–	(3,391)	(3,391)
Exchange difference on lease liabilities	–	–	570	570
Total other changes	–	164,688	50,256	214,944
As at 31 December 2020	1,575,018	131,750	118,200	1,824,968



Consolidated Statement of Cash Flows

For the year ended 31 December 2020

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (Continued)

	Bank loans HK\$'000	Dividends payable HK\$'000	Lease liabilities HK\$'000	Total liabilities from financing activities HK\$'000
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

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, 2 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 a comprehensive range of banking and financial 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		Principal activities
		Direct %	Indirect %	
Public Bank (Hong Kong) Limited	2,854,045,000	100	–	Provision of banking and financial services
Public Bank (Nominees) Limited	100,000	–	100	Provision of nominee services
Public Futures Limited	2	–	100	Dormant
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



Notes to Financial Statements

1. CORPORATE AND GROUP INFORMATION (Continued)

Name	Issued ordinary share capital HK\$	Percentage of equity attributable to the Company		Principal activities
		Direct %	Indirect %	
Winton Financial Limited	4,000,010	–	100	Provision 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

Notes:

1. 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. Public Credit Limited and Public Pacific Securities Limited were dissolved on 21 January 2020.

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 2020.

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).

Notes to Financial Statements

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 ratios 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 Ordinance relating to the Basel III capital standards and the 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 required capital conservation buffer (“CCB”) ratio for 2019 and 2020 is 2.5%, whilst the required countercyclical capital buffer (“CCyB”) ratio for 2019 and 2020 is 2.0% and 1.0%, 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 2020. The Group has adopted the *Conceptual Framework for Financial Reporting 2018* (the “Conceptual Framework”) and the following revised standards for the first time for the current year’s financial statements:

- | | |
|--|--|
| • Amendments to HKFRS 3 | <i>Definition of a Business</i> |
| • Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | <i>Interest Rate Benchmark Reform</i> |
| • Amendments to HKAS 1 and HKAS 8 | <i>Definition of Material</i> |
| • Amendment to HKFRS 16 | <i>COVID-19-Related Rent Concessions</i> |

Except for the amendments included in Amendments to HKFRS 9, HKAS 39 and HKFRS 7, which are not relevant to the preparation of the Group’s consolidated financial statements, the nature and impact of the Conceptual Framework and the amendments are described below.

The Conceptual Framework sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework has no impact on the Group’s financial statements.

The amendments to HKFRS 3 clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Furthermore, a business can exist without including all of the inputs and processes needed to create outputs. These amendments have no impact on the Group’s financial statements, but may impact future periods should the Group enter into any business combinations.

The 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 based on those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. These amendments have no impact on the Group’s financial statements.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

The amendment to HKFRS 16 provides relief to lessees from applying lease modification accounting to COVID-19 related rent concessions. The relief applies to lessees only. Lessors are required to apply the existing requirements of HKFRS 16. The amendment applies to annual reporting periods beginning on or after 1 June 2020 and early application is permitted.

The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

The Group has assessed all COVID-19 related rent concessions given by lessors. All necessary lease modifications have been made and the Group did not apply the practical expedient provided in the amendment.

Issued but not yet effective HKFRSs

The Group has not applied the following 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 10 and HKAS 28 (2011) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*¹

¹ No mandatory effective date yet determined but available for adoption

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

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.

Notes to 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 and 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 investments)
- Financial assets at FVPL



Notes to Financial Statements

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 include 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 financial assets 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 financial assets 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 investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as financial assets 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 investments designated at FVOCI are not subject to impairment assessment.

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

Notes to Financial Statements

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.



Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

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

(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.

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.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(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.

(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 risks 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.



Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(4) Derecognition of financial assets and financial liabilities (Continued)

(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) 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.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(6) Impairment of financial assets

The Group recognises an allowance for expected credit losses (“ECL(s)”) 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.

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 the 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 unlikelihood 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



Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(6) Impairment of financial assets (Continued)

- 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
- 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

The Group provides relief measures, including principal moratorium or extension of due dates, to relieve financial burden of loan borrowers affected by the COVID-19 pandemic. Borrowers with significant increase in credit risk (e.g. contractual payments being more than 30 days past due) are not eligible for application of the aforesaid relief scheme. In determination of the loan stage of loans under relief measures, the Group considers both delinquent period and qualitative information on loan repayment ability as mentioned above.

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 2020 and 31 December 2019. Over 90% (31 December 2019: 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

The Group assesses at contract inception whether a contract is, or contains, a lease. 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.

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.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(7) Leases (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

Lease liabilities are recognised at the commencement date of the lease 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 termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense 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 lease payments (e.g. a change to future lease payments resulting from a change in an index or rate) 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

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

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.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.



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) Fee income earned from services that are provided over a certain period of time
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) Fee income from providing transaction services
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.

(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".

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(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.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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 the consolidated income statement as a gain on bargain purchase.

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.



Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(10) Business combinations and goodwill (Continued)

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or 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;
 - (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.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(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.



Notes to Financial Statements

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.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(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 a CGU) exceeds its recoverable amount, the asset (or the 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.

(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.



Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(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.

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.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(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.

(22) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.



Notes to Financial Statements

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 2020 and 31 December 2019 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.

Notes to Financial Statements

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.



Notes to Financial Statements

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 2020 and 31 December 2019.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Segment revenue								
External:								
Net interest income/(expense)	1,233,474	1,361,070	(502)	(798)	-	-	1,232,972	1,360,272
Other operating income:								
Net fees and commission income	126,502	144,342	82,975	52,781	52	289	209,529	197,412
Others	99,967	31,974	871	(5)	14,593	15,738	115,431	47,707
Operating income	1,459,943	1,537,386	83,344	51,978	14,645	16,027	1,557,932	1,605,391
Operating profit/(loss) after credit loss expenses before tax	467,586	468,966	45,620	28,601	(32,909)	62,812	480,297	560,379
Tax							(83,300)	(94,039)
Profit for the year							396,997	466,340
Other segment information								
Depreciation of property and equipment and land held under finance leases	(41,306)	(35,000)	-	-	-	-	(41,306)	(35,000)
Depreciation of right-of-use assets	(64,092)	(66,605)	-	-	-	-	(64,092)	(66,605)
Changes in fair value of investment properties	-	-	-	-	(33,376)	62,560	(33,376)	62,560
Credit loss expenses	(185,605)	(222,118)	-	-	-	-	(185,605)	(222,118)
Net gains/(losses) on disposal of property and equipment	3	(101)	-	-	-	-	3	(101)

Notes to Financial Statements

7. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table discloses certain assets and liabilities information regarding operating segments as at 31 December 2020 and 31 December 2019.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Segment assets other than intangible assets and goodwill	41,847,763	41,595,033	421,085	425,413	357,979	392,040	42,626,827	42,412,486
Intangible assets	-	-	718	718	-	-	718	718
Goodwill	2,774,403	2,774,403	-	-	-	-	2,774,403	2,774,403
Segment assets	44,622,166	44,369,436	421,803	426,131	357,979	392,040	45,401,948	45,187,607
Unallocated assets: Deferred tax assets and tax recoverable							36,375	35,233
Total assets							45,438,323	45,222,840
Segment liabilities	36,797,289	36,784,169	152,484	184,779	5,028	7,379	36,954,801	36,976,327
Unallocated liabilities: Deferred tax liabilities and tax payable Dividends payable							86,631 131,750	104,439 164,688
Total liabilities							37,173,182	37,245,454
Other segment information								
Additions to non-current assets - capital expenditure	56,549	49,289	-	-	-	-	56,549	49,289



Notes to Financial Statements

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 2020 and 31 December 2019.

	2020 HK\$'000	2019 HK\$'000
Segment revenue from external customers:		
Hong Kong	1,428,855	1,475,354
Mainland China	129,077	130,037
	1,557,932	1,605,391

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 2020 and 31 December 2019.

	2020 HK\$'000	2019 HK\$'000
Non-current assets:		
Hong Kong	4,093,386	4,126,160
Mainland China	23,900	25,150
	4,117,286	4,151,310

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% (2019: less than 10%) of the Group's total operating income or revenue.

Notes to Financial Statements

8. INTEREST INCOME AND EXPENSE

	2020 HK\$'000	2019 HK\$'000
Interest income from:		
Loans and advances and receivables	1,491,737	1,701,004
Short term placements and placements with banks	62,988	118,439
Held-to-collect debt securities at amortised cost	98,559	136,444
	1,653,284	1,955,887
Interest expense on:		
Deposits from banks and financial institutions	5,211	19,823
Deposits from customers	374,886	522,270
Bank loans	36,844	49,817
Others	3,371	3,705
	420,312	595,615

Interest income and interest expense for the year ended 31 December 2020, calculated using the effective interest method for financial assets and financial liabilities which are not designated at FVPL, amounted to HK\$1,653,284,000 and HK\$420,312,000 (2019: HK\$1,955,887,000 and HK\$595,615,000) respectively.



Notes to Financial Statements

9. OTHER OPERATING INCOME

	2020 HK\$'000	2019 HK\$'000
Fees and commission income:		
Retail and commercial banking and other businesses	128,886	146,635
Wealth management services, stockbroking and securities management	82,975	52,781
	211,861	199,416
Less: Fees and commission expenses	(2,332)	(2,004)
Net fees and commission income	209,529	197,412
Gross rental income	14,659	15,551
Less: Direct operating expenses	(78)	(77)
Net rental income	14,581	15,474
Gains less losses arising from dealing in foreign currencies	5,596	18,149
Net gains on derivative financial instruments	23,070	10,794
	28,666	28,943
Net gains/(losses) on disposal of property and equipment	3	(101)
Gain on termination of leases	1,342	1,212
Dividend income from listed investments	156	103
Dividend income from unlisted investments	35	35
Government subsidies	68,874	–
Others	1,774	2,041
	324,960	245,119

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

The government subsidies were granted from the Employment Support Scheme, Subsidy Scheme for the Securities Industry and one-off subsidy for transport trades under the Anti-epidemic Fund of the Hong Kong Government which aims to retain employment and combat COVID-19 epidemic.

There were no net gains or losses arising from equity investments at FVOCI, loans and advances and receivables, financial assets and financial liabilities measured at amortised cost and financial assets and financial liabilities designated at FVPL for the years ended 31 December 2020 and 31 December 2019.

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	2020 HK\$'000	2019 HK\$'000
Staff costs:			
Salaries and other staff costs		509,449	528,452
Pension contributions		25,627	24,786
Less: Forfeited contributions		(59)	(158)
Net contribution to retirement benefit schemes		25,568	24,628
		535,017	553,080
Other operating expenses:			
Depreciation of right-of-use assets	25	64,092	66,605
Depreciation of property and equipment and land held under finance leases	23, 24	41,306	35,000
Auditors' remuneration		4,468	4,258
Administrative and general expenses		79,407	82,532
Others		134,364	143,979
Operating expenses before changes in fair value of investment properties		858,654	885,454

As at 31 December 2020 and 31 December 2019, 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 2020 and 31 December 2019 arose in respect of staff who left the schemes during the years.



Notes to Financial Statements

11. CREDIT LOSS EXPENSES

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

	2020			
	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	(14,356)	(13,857)	213,203	184,990
– trade bills, accrued interest and other receivables	(515)	(12)	922	395
– cash and short term placements	186	–	–	186
– placements with banks and financial institutions	24	–	–	24
– held-to-collect debt securities at amortised cost	64	–	–	64
– loan commitments	(53)	–	–	(53)
– financial guarantees and letters of credit	(1)	–	–	(1)
	(14,651)	(13,869)	214,125	185,605

	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



Notes to Financial Statements

12. DIRECTORS' REMUNERATION

The remuneration of each Director for the years ended 31 December 2020 and 31 December 2019, 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:

Name of Directors	2020				Total HK\$'000
	Fees	Salaries and other benefits (Note 1)	Bonuses	Retirement benefit contributions	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Tan Sri Dato' Sri Dr. Teh Hong Piow	975	-	-	-	975
Lai Wan	510	-	-	-	510
Tan Yoke Kong (Note 2)	250	2,627	1,005	261	4,143
Chong Yam Kiang	250	2,422	669	137	3,478
Lee Huat Oon (resigned effective from 1 January 2020)	-	2	486	-	488
Quah Poh Keat	500	-	-	-	500
Dato' Chang Kat Kiam	375	-	-	-	375
Lee Chin Guan	510	-	-	-	510
Tang Wing Chew	510	-	-	-	510
	3,880	5,051	2,160	398	11,489



Notes to Financial Statements

12. DIRECTORS' REMUNERATION (Continued)

Name of Directors	Fees HK\$'000	Salaries and other benefits (Note 1) HK\$'000	2019		Total HK\$'000
			Bonuses HK\$'000	Retirement benefit contributions 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

Notes:

- 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 2020 (2019: Nil).
- 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 (2019: HK\$913,920).

Notes to Financial Statements

13. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included two (2019: three) Directors, details of whose remuneration are set out in note 12 above.

Details of the remaining three (2019: two) highest paid individuals' remuneration are as follows:

	2020 HK\$'000	2019 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	5,248	3,766
Bonuses paid and payable	1,051	578
Retirement benefit scheme contributions	397	203
	6,696	4,547

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

	2020 Number of individuals	2019 Number of individuals
HK\$2,000,001 – HK\$2,500,000	3	2
	3	2

14. TAX

	Note	2020 HK\$'000	2019 HK\$'000
Current tax charge:			
Hong Kong		53,892	58,918
Overseas		24,036	24,248
Over-provision in prior years		(1,058)	(920)
Deferred tax charge, net	32	6,430	11,793
		83,300	94,039

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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.



Notes to Financial Statements

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:

	Hong Kong		2020 Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	393,478		86,819		480,297	
Tax at the applicable tax rate	64,924	16.5	21,705	25.0	86,629	18.0
Estimated tax effect of net (income)/expenses that is/are not (taxable)/deductible	(2,490)	(0.6)	219	0.3	(2,271)	(0.5)
Adjustments in respect of current tax of previous years	(1,058)	(0.3)	-	-	(1,058)	(0.2)
Tax charge at the Group's effective rate	61,376	15.6	21,924	25.3	83,300	17.3

	Hong Kong		2019 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 effect of net (income)/expenses that is/are not (taxable)/deductible	(5,791)	(1.2)	4	-	(5,787)	(1.0)
Adjustments in respect of current tax of previous years	(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

Notes to Financial Statements

15. DIVIDENDS

(a) Dividends declared during the year

	2020 HK\$ per ordinary share	2019 HK\$ per ordinary share	2020 HK\$'000	2019 HK\$'000
First interim dividend declared and paid	0.03	0.05	32,938	54,896
Second interim dividend declared	0.12	0.15	131,750	164,688
	0.15	0.20	164,688	219,584

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

	2020 HK\$ per ordinary share	2019 HK\$ per ordinary share	2020 HK\$'000	2019 HK\$'000
Second interim dividend in respect of the previous year	0.15	0.17	164,688	186,646

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\$396,997,000 (2019: HK\$466,340,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2019: 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 2020 and 31 December 2019.



Notes to Financial Statements

17. CASH AND SHORT TERM PLACEMENTS

	2020 HK\$'000	2019 HK\$'000
Cash on hand	173,511	239,744
Placements with banks and financial institutions	1,045,575	888,982
Money at call and short notice	5,006,156	3,316,134
Gross cash and short term placements	6,225,242	4,444,860
Less: Impairment allowances collectively assessed		
As at 1 January 2020 and 2019	(419)	(379)
Credit loss expenses charged to the consolidated income statement during the year	(186)	(40)
	(605)	(419)
Cash and short term placements	6,224,637	4,444,441

Over 90% (31 December 2019: 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

	2020 HK\$'000	2019 HK\$'000
Gross placements with banks and financial institutions	1,771,342	1,532,689
Less: Impairment allowances collectively assessed		
As at 1 January 2020 and 2019	(153)	(156)
Credit loss expenses (charged)/released to the consolidated income statement during the year	(24)	3
	(177)	(153)
Placements with banks and financial institutions	1,771,165	1,532,536

Over 90% (31 December 2019: 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

	2020 HK\$'000	2019 HK\$'000
Loans and advances to customers	26,154,721	28,720,607
Trade bills	20,981	34,195
Loans and advances, and trade bills	26,175,702	28,754,802
Accrued interest	69,389	78,340
Other receivables	26,245,091 14,000	28,833,142 16,257
Gross loans and advances and receivables	26,259,091	28,849,399
Less: Impairment allowances*		
– specifically assessed	(60,022)	(69,083)
– collectively assessed	(120,569)	(149,363)
	(180,591)	(218,446)
Loans and advances and receivables	26,078,500	28,630,953

Over 90% (31 December 2019: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (31 December 2019: 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\$18,000 and HK\$72,000 on off-balance sheet credit exposures as at 31 December 2020 and 31 December 2019 respectively.

Loans and advances and receivables are summarised as follows:

	2020 HK\$'000	2019 HK\$'000
Neither past due nor impaired loans and advances and receivables	25,475,337	28,109,726
Past due but not impaired loans and advances and receivables	551,920	542,502
Credit impaired loans and advances	222,914	192,737
Credit impaired receivables	8,920	4,434
Gross loans and advances and receivables	26,259,091	28,849,399

About 69% (31 December 2019: about 63%) 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.



Notes to Financial Statements

19. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	2020		2019	
	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:				
Six months or less but over three months	62,784	0.24	69,725	0.24
One year or less but over six months	45,939	0.17	10,869	0.04
Over one year	49,327	0.19	30,646	0.11
Loans and advances overdue for more than three months	158,050	0.60	111,240	0.39
Rescheduled loans and advances overdue for three months or less	53,761	0.21	67,422	0.23
Impaired loans and advances overdue for three months or less	11,103	0.04	14,075	0.05
Total overdue and impaired loans and advances	222,914	0.85	192,737	0.67

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

	2020 HK\$'000	2019 HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	525	430
One year or less but over six months	2,017	562
Over one year	6,338	3,265
Trade bills, accrued interest and other receivables overdue for more than three months	8,880	4,257
Impaired trade bills, accrued interest and other receivables overdue for three months or less	40	177
Total overdue and impaired trade bills, accrued interest and other receivables	8,920	4,434

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.

Notes to Financial Statements

19. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	2020			2019		
	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	93,218	73,712	166,930	75,678	39,819	115,497
Impairment allowances specifically assessed	33,759	7,995	41,754	46,187	4	46,191
Current market value and fair value of collateral			200,875			87,374
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	158,122	73,712	231,834	157,352	39,819	197,171
Impairment allowances specifically assessed	52,027	7,995	60,022	69,079	4	69,083
Current market value and fair value of collateral			216,561			117,829

Over 90% (31 December 2019: 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:

	2020 HK\$'000	2019 HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	200,875	87,374
Covered portion of overdue loans and advances	116,065	50,011
Uncovered portion of overdue loans and advances	41,985	61,229



Notes to Financial Statements

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 2020, the total value of repossessed assets of the Group amounted to HK\$19,890,000 (31 December 2019: HK\$10,170,000).

(e) Past due but not impaired loans and advances and receivables

	2020		2019	
	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	548,698	2.10	539,581	1.88
Trade bills, accrued interest and other receivables overdue for three months or less	3,222		2,921	

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

An analysis of changes in the gross amount of loans and advances and receivables is as follows:

	2020			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
Gross loans and advances and receivables as at 1 January 2020	28,402,801	249,427	197,171	28,849,399
New loans/financing originated	7,511,474	122	4,807	7,516,403
Loans/financing derecognised or repaid during the year (other than write-offs)	(9,685,392)	(66,262)	(27,254)	(9,778,908)
Transfer to 12-month expected credit loss (Stage 1)	100,724	(78,156)	(22,568)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(214,904)	220,558	(5,654)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(355,314)	(57,821)	413,135	–
Total transfer between stages	(469,494)	84,581	384,913	–
Write-offs	–	–	(327,803)	(327,803)
As at 31 December 2020	25,759,389	267,868	231,834	26,259,091
Arising from:				
Loans and advances	25,666,048	265,759	222,914	26,154,721
Trade bills, accrued interest and other receivables	93,341	2,109	8,920	104,370
	25,759,389	267,868	231,834	26,259,091

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK\$271,090,000.



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)

	2019			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 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.

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:

	2020			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
Internal rating grades:				
Performing				
Pass	25,494,492	–	–	25,494,492
Special Mention	264,897	267,868	–	532,765
Non-performing				
Substandard	–	–	154,654	154,654
Doubtful	–	–	61,236	61,236
Loss	–	–	15,944	15,944
Total	25,759,389	267,868	231,834	26,259,091
		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



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 changes in the corresponding ECL allowances is as follows:

	2020			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
As at 1 January 2020	111,417	37,946	69,083	218,446
New loans/financing originated	58,926	–	264	59,190
Loans/financing derecognised or repaid during the year (other than write-offs)	(67,459)	(8,761)	(110,713)	(186,933)
Transfer to 12-month expected credit loss (Stage 1)	4,563	(821)	(3,742)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(3,802)	4,134	(332)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(10,864)	(27,638)	38,502	–
Total transfer between stages	(10,103)	(24,325)	34,428	–
Impact on year end expected credit loss of exposures transferred between stages during the year	(1,854)	19,219	255,716	273,081
Movements due to changes in credit risk	5,565	(2)	34,430	39,993
Recoveries	–	–	104,617	104,617
Write-offs	–	–	(327,803)	(327,803)
As at 31 December 2020	96,492	24,077	60,022	180,591
Arising from:				
Loans and advances	95,248	24,064	58,969	178,281
Trade bills, accrued interest and other receivables	1,226	13	1,053	2,292
Loan commitments	16	–	–	16
Financial guarantees and letters of credit	2	–	–	2
	96,492	24,077	60,022	180,591

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)

	2019			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 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)
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)

(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:

	2020 Minimum lease payments	2019	2020 Present value of minimum lease payments	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts receivable under finance leases:				
Within one year	370,053	435,909	237,644	307,461
In the second to fifth years, inclusive	1,046,511	1,287,254	627,982	900,142
Over five years	5,190,583	4,303,929	3,952,305	3,529,219
	6,607,147	6,027,092	4,817,931	4,736,822
Less: Unearned finance income	(1,789,216)	(1,290,270)		
Present value of minimum lease payments receivables	4,817,931	4,736,822		

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

	2020 HK\$'000	2019 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

	2020 HK\$'000	2019 HK\$'000
Certificates of deposit held	3,536,714	2,212,500
Treasury bills and government bonds (including Exchange Fund Bills)	2,047,479	2,473,783
Other debt securities	1,151,744	1,393,087
Gross held-to-collect debt securities at amortised cost	6,735,937	6,079,370
Less: Impairment allowances collectively assessed		
As at 1 January 2020 and 2019	(610)	(623)
Credit loss expenses (charged)/released to the consolidated income statement during the year	(64)	13
	(674)	(610)
	6,735,263	6,078,760
Listed or unlisted:		
– Listed in Hong Kong	566,036	1,112,965
– Listed outside Hong Kong	35,855	126,267
– Unlisted	6,134,046	4,840,138
	6,735,937	6,079,370
Analysed by type of issuers:		
– Central governments	2,047,479	2,473,783
– Public sector entities	499,991	199,982
– Banks and other financial institutions	4,188,467	3,405,605
	6,735,937	6,079,370

There were no impairment allowances specifically assessed made against held-to-collect debt securities at amortised cost as at 31 December 2020 and 31 December 2019.

There were neither impaired nor overdue held-to-collect debt securities at amortised cost as at 31 December 2020 and 31 December 2019.

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 2020 and 31 December 2019.



Notes to Financial Statements

22. INVESTMENT PROPERTIES

	HK\$'000
At valuation:	
As at 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
	391,316
As at 31 December 2019 and 1 January 2020	(33,376)
	357,940
As at 31 December 2020	357,940

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 transfers into or out of Level 3 (31 December 2019: 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 2020, 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 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:

	2020		2019	
	Range HK\$	Weighted average HK\$	Range HK\$	Weighted average HK\$
Price per square metre	31,000 to 508,000	190,000	32,000 to 581,000	210,000

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 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 and 1 January 2020	83,518	341,740	2,314	427,572
Additions	–	55,847	702	56,549
Disposals/write-off	–	(5,959)	(1,160)	(7,119)
As at 31 December 2020	83,518	391,628	1,856	477,002
Accumulated depreciation:				
As at 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 and 1 January 2020	28,863	228,656	1,884	259,403
Provided during the year	1,669	31,603	163	33,435
Disposals/write-off	–	(5,818)	(1,160)	(6,978)
As at 31 December 2020	30,532	254,441	887	285,860
Net carrying amount:				
As at 31 December 2020	52,986	137,187	969	191,142
As at 31 December 2019	54,655	113,084	430	168,169

There were no impairment allowances made against the above items of property and equipment as at 31 December 2020 and 31 December 2019. There were no movements in impairment allowances for the years ended 31 December 2020 and 31 December 2019.



Notes to Financial Statements

24. LAND HELD UNDER FINANCE LEASES

	HK\$'000
Cost:	
As at 1 January 2019	796,653
Transfer to investment properties	(12,262)
Transfer from investment properties	31,037
	815,428
As at 31 December 2019, 1 January 2020 and 31 December 2020	
Accumulated depreciation and impairment:	
As at 1 January 2019	120,580
Transfer to investment properties	(1,063)
Depreciation provided during the year	7,875
	127,392
As at 31 December 2019 and 1 January 2020	
Depreciation provided during the year	7,871
	135,263
As at 31 December 2020	
Net carrying amount:	
As at 31 December 2020	680,165
As at 31 December 2019	688,036

The Group's land held under finance leases at net carrying amount is held under the following lease terms:

	2020 HK\$'000	2019 HK\$'000
Leaseholds:		
Held in Hong Kong		
– On long-term leases	483,803	484,675
– On medium-term leases	180,241	186,473
Held outside Hong Kong		
– On medium-term leases	16,121	16,888
	680,165	688,036

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

The Group has entered into lease arrangements with landlords, and the terms of the leases range from 1 to 10 years.

The Group has several lease contracts that include extension options range from 2 to 3 years. 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 years ended 31 December 2020 and 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.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the years:

Right-of-use assets:

	Land and Buildings HK\$'000
Cost:	
As at 1 January 2019	239,737
Addition	66,588
Reassessment	(3,859)
Written off	(46,905)
	255,561
As at 31 December 2019 and 1 January 2020	51,195
Addition	(3,364)
Reassessment	(26,738)
Written off	(26,738)
	276,654
As at 31 December 2020	276,654
Accumulated depreciation and impairment:	
As at 1 January 2019	(106,992)
Depreciation provided during the year	(66,605)
Written off	46,905
Exchange difference	(201)
	(126,893)
As at 31 December 2019 and 1 January 2020	(64,092)
Depreciation provided during the year	(26,738)
Written off	26,738
Exchange difference	511
	(163,736)
As at 31 December 2020	(163,736)
Net carrying amount:	
As at 31 December 2020	112,918
As at 31 December 2019	128,668



Notes to Financial Statements

25. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Continued)

Set out below are the carrying amounts of lease liabilities and the movements during the years:

Lease liabilities:

	Land and Buildings HK\$'000
As at 1 January 2019	136,089
Addition	65,237
Interest expense	3,598
Payments	(67,909)
Reassessment	(3,851)
Exchange difference	(220)
	132,944
As at 31 December 2019 and 1 January 2020	132,944
Addition	49,827
Interest expense	3,250
Payments	(65,000)
Reassessment	(3,391)
Exchange difference	570
	118,200
As at 31 December 2020	118,200

The maturity analysis of lease liabilities is disclosed in note 39 to the financial statements.

The following are the amounts recognised in profit or loss:

	2020 HK\$'000	2019 HK\$'000
Depreciation expense of right-of-use assets	64,092	66,605
Interest expense on lease liabilities	3,250	3,598
Expense relating to short-term leases	390	48
Expense relating to leases of low-value assets	2,363	2,151
	70,095	72,402

The Group had total cash outflows for leases of HK\$65,000,000 in 2020 (2019: HK\$67,909,000). The future cash outflows relating to leases committed but not yet commenced are disclosed in note 35 to the financial statements.

Notes to Financial Statements

26. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	2020 HK\$'000	2019 HK\$'000
Interest receivables from financial institutions	15,260	36,040
Other debtors, deposits and prepayments	398,567	235,574
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	28,715	55,744
	442,542	327,358

There were no other overdue or rescheduled assets, and no impairment allowances for such other assets accordingly.

Other liabilities

	2020 HK\$'000	2019 HK\$'000
Creditors, accruals and other payables	493,730	419,496
Interest payable	50,441	164,048
Net amount of accounts payable to HKSCC	100,845	7,835
	645,016	591,379

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			
2020			
Amount of accounts receivable from HKSCC	167,388	(138,673)	28,715
2019			
Amount of accounts receivable from HKSCC	253,091	(197,347)	55,744
Other liabilities			
2020			
Amount of accounts payable to HKSCC	(239,518)	138,673	(100,845)
2019			
Amount of accounts payable to HKSCC	(205,182)	197,347	(7,835)

27. GOODWILL

	2020 HK\$'000	2019 HK\$'000
Cost and net carrying amount: At the beginning and the end of the year	2,774,403	2,774,403

Notes to Financial Statements

27. GOODWILL (Continued)

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-rate basis to the two CGUs based on the ratio of the recoverable amount of a CGU to that of the other CGU at the date of acquisition. The carrying amount of goodwill as at 31 December 2020 and 31 December 2019 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. 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, 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, availability of financial resources for business expansion and compliance with regulatory capital and liquidity requirements, and achievement of business targets extrapolated from a track record of financial results. Management’s financial model assumes an average growth rate of 2.2% per annum for both CGUs from the eleventh to fiftieth years taking into account long-term GDP growth and other relevant economic factors. Discount rate of 6.2% is used for both CGUs based on the pre-tax weighted average cost of capital plus an appropriate risk premium relating to the CGUs at the date of assessment.

No impairment loss has been recognised in respect of goodwill for the years ended 31 December 2020 and 31 December 2019 as its value-in-use exceeded its carrying amount.

28. INTANGIBLE ASSETS

	2020 HK\$'000	2019 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 2019: five units) of Stock Exchange Trading Right and one unit (31 December 2019: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.



Notes to Financial Statements

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 2020 HK\$'000	Maximum amount outstanding during the year HK\$'000	As at 31 December 2019 and 1 January 2020 HK\$'000	Maximum amount outstanding during the prior year HK\$'000	As at 1 January 2019 HK\$'000	Security held
Tan Yoke Kong	-	283	1	296	87	None
Chong Yam Kiang	-	116	17	163	122	None
	-		18		209	

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

	2020 HK\$'000	2019 HK\$'000
Demand deposits and current accounts	4,525,804	4,704,152
Savings deposits	7,612,848	6,069,506
Time, call and notice deposits	22,054,095	23,143,767
	34,192,747	33,917,425

Notes to Financial Statements

31. UNSECURED BANK LOANS AT AMORTISED COST

	2020 HK\$'000	2019 HK\$'000
Unsecured bank loans	1,575,018	1,542,693
Repayable:		
On demand or within a period not exceeding one year	479,000	450,000
Within a period of more than one year but not exceeding two years	1,096,018	–
Within a period of more than two years but not exceeding five years	–	1,092,693
	1,575,018	1,542,693

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:

	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 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 and 1 January 2020	34,576	642	15	35,233
Deferred tax charged to the consolidated income statement	(2,163)	(91)	(4)	(2,258)
Exchange difference	1,600	28	–	1,628
As at 31 December 2020	34,013	579	11	34,603



Notes to Financial Statements

32. DEFERRED TAX (Continued)

Deferred tax liabilities:

	Accelerated tax depreciation of property and equipment HK\$'000
As at 1 January 2019	36,350
Deferred tax charged to the consolidated income statement	4,836
As at 31 December 2019 and 1 January 2020	41,186
Deferred tax charged to the consolidated income statement	4,172
As at 31 December 2020	45,358

The Group has tax losses arising in Hong Kong of HK\$9,698,000 (31 December 2019: HK\$9,698,000) 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

	2020 HK\$'000	2019 HK\$'000
Authorised: 2,000,000,000 (2019: 2,000,000,000) ordinary shares of HK\$0.10 each	200,000	200,000
Issued and fully paid: 1,097,917,618 (2019: 1,097,917,618) ordinary shares of HK\$0.10 each	109,792	109,792

Notes to Financial Statements

34. RESERVES

	Note	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 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 and 1 January 2020		4,013,296	829	96,116	3,982	207,735	3,548,042	(2,406)	7,867,594
Profit for the year		-	-	-	-	-	396,997	-	396,997
Other comprehensive income		-	-	-	-	-	-	55,446	55,446
Transfer from regulatory reserve to retained profits		-	-	-	-	(154,455)	154,455	-	-
Dividends for 2020	15	-	-	-	-	-	(164,688)	-	(164,688)
As at 31 December 2020		4,013,296	829	96,116	3,982	53,280	3,934,806	53,040	8,155,349

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 2020 was positive goodwill of HK\$98,406,000 (31 December 2019: 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.



Notes to Financial Statements

35. LEASES

(a) As lessor

The Group leases its investment properties in note 22 to the financial statements under operating lease arrangements, and the terms of the leases range from 1 to 3 years.

As at 31 December 2020 and 31 December 2019, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	2020 HK\$'000	2019 HK\$'000
Within one year	5,579	10,222
In the second to fifth years, inclusive	1,649	4,975
	7,228	15,197

(b) As lessee

The Group has entered into certain future lease arrangements with landlords, and the terms of the leases range from 1 to 5 years. As at 31 December 2020 and 31 December 2019, the Group had total future lease payments for leases committed but not yet commenced falling due as follows:

	2020 HK\$'000	2019 HK\$'000
Within one year	4,282	1,271
In the second to fifth years, inclusive	11,122	1,992
Over five years	30	–
	15,434	3,263

Notes to Financial Statements

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:

	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	2020 Credit risk-weighted amount HK\$'000	Positive fair value-assets HK\$'000	Negative fair value-liabilities HK\$'000
Direct credit substitutes	22,727	22,727	18,792	-	-
Transaction-related contingencies	6,899	3,449	831	-	-
Trade-related contingencies	21,976	4,396	3,032	-	-
Forward forward deposits placed	-	-	-	-	-
Forward asset purchases	-	-	-	-	-
	51,602	30,572	22,655	-	-
Derivatives held for trading:					
Foreign exchange rate contracts	995,089	35,697	7,140	25,751	2,682
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	16,393	8,197	8,197	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,439,894	-	-	-	-
	3,502,978	74,466	37,992	25,751	2,682
					2020 Contractual amount HK\$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position					13,144



Notes to Financial Statements

36. OFF-BALANCE SHEET EXPOSURE (Continued)

(a) Contingent liabilities, commitments and derivatives (Continued)

	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	2019 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)

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.

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 2020 and 31 December 2019, 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 established in an organised financial market 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. 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 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 the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

Notes to Financial Statements

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	2020 HK\$'000	2019 HK\$'000
Related party transactions included in the consolidated income statement:			
Interest paid and payable to the ultimate holding company and fellow subsidiaries	(b)	9,017	13,116
Commitment fees paid to the ultimate holding company	(f)	3,954	3,978
Key management personnel compensation:	(c)		
– short term employee benefits		10,573	12,309
– post-employment benefits		398	634
Interest paid to key management personnel	(b)	34	25
Commission fee income from key management personnel	(e)	4	–
Commission fees and services fees paid to fellow subsidiaries	(f)	147	133
	Notes	2020 HK\$'000	2019 HK\$'000
Related party transactions included in the consolidated statement of financial position:			
Cash and short term funds with the ultimate holding company	(a)	5,109	120
Deposits from the ultimate holding company and fellow subsidiaries	(b)	13,978	13,739
Bank loans from the ultimate holding company and a fellow subsidiary	(b)	479,000	450,000
Interest payable to the ultimate holding company and a fellow subsidiary	(b)	110	572
Loans to key management personnel	(d)	–	18
Deposits from key management personnel	(b)	2,611	2,508
Interest payable to key management personnel	(b)	–	9

Notes to Financial Statements

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 fees were 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 fees were paid to Public Investment Bank Berhad from Public Securities Limited for stock broking transactions.

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.

Notes to Financial Statements

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 having 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 determined 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.

(b) Financial assets and financial liabilities carried at fair value

The following tables show an analysis of financial instruments carried at fair value by level of the fair value hierarchy:

	2020			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets:				
Derivative financial instruments	–	25,751	–	25,751
Equity investments at fair value through other comprehensive income	–	–	6,804	6,804
	–	25,751	6,804	32,555
Financial liabilities:				
Derivative financial instruments	–	2,682	–	2,682

Notes to Financial Statements

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(b) Financial assets and financial liabilities carried at fair value (Continued)

	2019			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 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

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 2020 and 31 December 2019, 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 the Level 3 financial instruments is insignificant to the Group.

For the years ended 31 December 2020 and 31 December 2019, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the years ended 31 December 2020 and 31 December 2019, 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 2020 and 31 December 2019.

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.



Notes to Financial Statements

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. The Group's contractual undiscounted repayment obligations are shown in the sub-section "Liquidity risk management" in note 40 to the financial statements.

	2020							Total HK\$'000
	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	
Financial assets:								
Gross cash and short term placements	1,219,086	5,006,156	-	-	-	-	-	6,225,242
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	1,511,190	260,152	-	-	-	1,771,342
Gross loans and advances and receivables	374,845	2,034,659	667,486	2,358,970	6,702,319	13,888,978	231,834	26,259,091
Equity investments at fair value through other comprehensive income	-	-	-	-	-	-	6,804	6,804
Gross held-to-collect debt securities at amortised cost	-	384,690	1,451,321	4,178,935	720,991	-	-	6,735,937
Other assets	38	361,421	12,766	41,840	2,161	-	24,316	442,542
Gross foreign exchange contracts	-	564,884	430,205	-	-	-	-	995,089
Total financial assets	1,593,969	8,351,810	4,072,968	6,839,897	7,425,471	13,888,978	262,954	42,436,047
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	51,282	269,856	100,000	-	-	-	-	421,138
Customer deposits at amortised cost	12,195,713	6,429,072	11,910,812	3,649,643	7,507	-	-	34,192,747
Unsecured bank loans at amortised cost	-	379,000	-	100,000	1,096,018	-	-	1,575,018
Lease liabilities	-	4,630	9,144	33,826	65,230	5,370	-	118,200
Other liabilities	3,307	392,278	24,925	6,458	182	-	217,866	645,016
Gross foreign exchange contracts	-	555,009	417,011	-	-	-	-	972,020
Total financial liabilities	12,250,302	8,029,845	12,461,892	3,789,927	1,168,937	5,370	217,866	37,924,139
Net liquidity gap	(10,656,333)	321,965	(8,388,924)	3,049,970	6,256,534	13,883,608	45,088	4,511,908

Notes to Financial Statements

39. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

	2019							Total HK\$'000
	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	
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



Notes to Financial Statements

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 and liquidity risk.

The Group's business activities comprise retail and commercial banking services. These activities expose the Group to a variety of risks, mainly interest rate risk, market risk, credit risk, liquidity risk, operational risk and cyber security 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, operational risk and cyber security risk, which are approved 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 maturities. 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 customers with the right to prepay or early repay one's assets or liabilities such that cash flows related to such financial contracts are altered.

Notes to Financial Statements

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

The Boards of Public Bank (Hong Kong) and Public Finance are ultimately responsible for management of IRRBB and define the overall risk appetite for management of IRRBB. The RMCs are 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 ALCOs are 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 the changing market conditions. Risk Management Departments (“RMDs”) assess, monitor and report interest rate risk exposures against approved risk limits and key interest rate risk related matters (such as limit excesses) to the ALCOs at least monthly, and escalate to the RMCs and the Boards 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 the HKFRSs. 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 the existing IRRBB model or assessment methodology are deliberated by ALCOs and RMCs for the approval by the Boards. Internal Audit Departments perform 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.



Notes to Financial Statements

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 positions of 31 December 2020 and 31 December 2019 under various scenarios are as follows:

Scenario	2020		2019	
	EVE HK\$'000	HK\$'000	NII HK\$'000	HK\$'000
Parallel up	(95,106)	(97,310)	58,803	58,056
Parallel down	92,807	100,881	(60,879)	(58,811)
Steeper	34,857	33,341	(45,531)	(46,828)
Flattener	(50,043)	(50,015)	57,880	57,260
Short rate up	(78,584)	(76,627)	70,200	71,481
Short rate down	76,555	78,159	(68,264)	(73,209)

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 dealings, 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") and Australian dollars ("AUD"). 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 2020, 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\$12 million (31 December 2019: HK\$11 million) mainly as a result of foreign exchange impact arising from the net structural position of RMB denominated operating capital.

Notes to Financial Statements

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, 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 exposures defines and states connected parties, statutory and applicable connected lending limits, types of connected transactions, 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 credit reviews, 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:

	2020 HK\$'000	2019 HK\$'000
Credit related contingent liabilities	51,602	44,409
Loan commitments and other credit related commitments	2,456,287	3,231,993

Notes to Financial Statements

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.

RMDs 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 has established 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 be 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 early stage and obtaining of emergency funding in bank-run scenario at later stage. Designated roles and responsibilities of Crisis Management Team, departments and business units and their emergency contact information are documented clearly in contingency funding plan policy 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\$2.0 billion to address critical and emergent liquidity needs on 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.

Notes to Financial Statements

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Apart from cash-flow projections under normal scenario to manage liquidity under different time horizons, different stress scenarios such as 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 institution-specific stress scenario, loan repayments from some customers are assumed to be delayed. The projected cash inflow would be affected by 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 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 (including Public Bank (Hong Kong) and Public Finance) 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.

	2020	2019
Liquidity Maintenance Ratio		
– Public Bank (Hong Kong) Group	52.1%	48.3%
– Public Bank (Hong Kong)	50.9%	46.9%
– Public Finance	71.4%	73.3%
Core Funding Ratio		
– Public Bank (Hong Kong) Group	137.3%	132.2%
– Public Bank (Hong Kong)	134.7%	129.4%

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 are 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 2020, the liquidity ratios in RMB and foreign currencies of Mainland China Office were more than 100%.

Maturity analysis of financial liabilities, based on the contractual undiscounted cash flows, is as follows:

	Repayable on demand HK\$'000	Up to 1 month HK\$'000	2020			Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	Total 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			
Forward assets purchase	-	-	-	-	-	-	-	-
Forward forward deposits placed	-	-	-	-	-	-	-	-
Gross foreign currency contracts	-	555,008	417,012	-	-	-	-	972,020
Credit related contingent liabilities	17,663	7,072	7,293	19,422	20	132	-	51,602
Loan commitments and other credit related commitments	2,388,076	50,178	1,640	-	16,393	-	-	2,456,287
Customer deposits at amortised cost	12,198,747	6,446,568	11,951,816	3,671,145	8,197	-	-	34,276,473
Deposits and balances of banks and other financial institutions at amortised cost	51,555	270,096	100,294	-	-	-	-	421,945
Unsecured bank loans at amortised cost	-	379,167	-	100,047	1,101,119	-	-	1,580,333
Lease liabilities	-	4,866	9,586	35,423	67,997	5,525	-	123,397
Other liabilities	-	376,709	-	-	-	-	217,866	594,575
	14,656,041	8,089,664	12,487,641	3,826,037	1,193,726	5,657	217,866	40,476,632

Notes to Financial Statements

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

	Repayable on demand HK\$'000	Up to 1 month HK\$'000	2019			Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	Total 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			
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

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 monitoring and control of operational risk.



Notes to Financial Statements

40. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Cyber security risk management

Cyber security risk is the risk of loss resulting from a cyber attack or information security breach on the Group. The Group has put in place adequate resources and established cyber security risk management policy in accordance with the requirements of the HKMA's Cybersecurity Fortification Initiative and other industry standards to provide guidance on managing cyber security risk, improving cyber resilience as well as ensuring adequate cyber security awareness throughout the Group. The Group also periodically engaged qualified professional assessors to conduct assessments and simulation attacks to assess the robustness of the Group's cyber security controls.

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 ratios against trigger limits and for risk exposures and ensuring compliance with relevant statutory limits, taking into account business growth, dividend payout 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 unit 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 Ordinance relating to Basel III capital standards and the 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 2020	31 December 2019
Group:		
Consolidated CET1 Capital Ratio	17.4%	15.8%
Consolidated Tier 1 Capital Ratio	17.4%	15.8%
Consolidated Total Capital Ratio	18.3%	17.3%
Public Bank (Hong Kong):		
Consolidated CET1 Capital Ratio	21.3%	19.7%
Consolidated Tier 1 Capital Ratio	21.3%	19.7%
Consolidated Total Capital Ratio	22.1%	20.9%

The above capital ratios are higher than the minimum capital ratios required by the HKMA.

Notes to Financial Statements

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 effective from 1 January 2019.

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.

As at 31 December 2020, Public Bank (Hong Kong) Group has reserved a capital buffer, inclusive of CCyB ratio of 1.0%, to the private sector credit exposures in Hong Kong.

The following tables illustrate 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 2020				
1. Hong Kong	1.000	17,091,917		
2. Mainland China	–	1,647,094		
Total		18,739,011	0.912	170,919
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



Notes to Financial Statements

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 Leverage Ratio.

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Public Bank (Hong Kong): Consolidated Tier 1 Capital	5,791,024	5,334,073
Consolidated Exposure Measure for Leverage Ratio	41,800,473	41,500,374
Consolidated Leverage Ratio	13.9%	12.9%

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 (dissolved on 21 January 2020), Public Futures Limited, Public Pacific Securities Limited (dissolved on 21 January 2020), 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 (dissolved on 21 January 2020), Public Futures Limited, Public Pacific Securities Limited (dissolved on 21 January 2020), 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.

Notes to 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	2020 HK\$'000	2019 HK\$'000
ASSETS			
Cash and short term placements		3,902	10,726
Investment properties		2,640,183	2,918,404
Property and equipment		1,422	1,514
Investments in subsidiaries	41(a)	6,593,507	6,593,507
Deferred tax assets		10	14
Other assets		415	532
TOTAL ASSETS		9,239,439	9,524,697
EQUITY AND LIABILITIES			
LIABILITIES			
Dividends payable		131,750	164,688
Unsecured bank loans at amortised cost		1,481,018	1,442,693
Tax payable		458	80
Deferred tax liabilities		12,913	11,945
Other liabilities		53,735	54,110
TOTAL LIABILITIES		1,679,874	1,673,516
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		109,792	109,792
Reserves	41(b)	7,449,773	7,741,389
TOTAL EQUITY		7,559,565	7,851,181
TOTAL EQUITY AND LIABILITIES		9,239,439	9,524,697

Lai Wan
Director

Tan Yoke Kong
Director



Notes to Financial Statements

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

(a) Investments in subsidiaries

Information about the investments in subsidiaries of the Company at the end of the reporting year is as follows:

	2020 HK\$'000	2019 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 2020 and 31 December 2019.

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 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 and 1 January 2020		4,013,344	829	194,176	3,533,040	7,741,389
Loss for the year		–	–	–	(126,928)	(126,928)
Dividends for 2020	15	–	–	–	(164,688)	(164,688)
As at 31 December 2020		4,013,344	829	194,176	3,241,424	7,449,773

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 15 January 2021.



List of Properties

LIST OF PROPERTIES OWNED BY THE GROUP AS AT 31 DECEMBER 2020

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 2020 (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	27 Years (30-6-2047)	47 Years	84	30-6-1980	968
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	839 Years (26-12-2859)	31 Years	68	9-3-1990	3,758
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	27 Years (30-6-2047)	56 Years	94	9-6-1990	1,635
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	879 Years (18-4-2899)	37 Years	91	31-12-2011 (#)	17,192
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	106 Years (26-8-2126)	37 Years	293	18-3-1992	6,953
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	110 Years (19-10-2130)	35 Years	253	5-3-1993	8,030
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	59 Years (18-8-2079)	50 Years	130	24-5-1993	11,109
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	882 Years (14-8-2902)	53 Years	1,464	11-6-1993	87,090

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 2020 (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	30 Years (27-5-2050)	33 Years	2,215	30-6-1994 (#)	96,390
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	879 Years (18-4-2899)	36 Years	76	1-8-1995	4,446
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	47 Years (22-10-2067)	38 Years	110	14-1-2000	8,374
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	108 Years (10-12-2128)	38 Years	131	1-11-2000	2,055
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	27 Years (30-6-2047)	63 Years	102	23-4-2001	9,952
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	882 Years (14-8-2902)	53 Years	113	15-10-2003	52,080
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	27 Years (27-6-2047)	55 Years	682 Workshops A, B and C 68 Flat E	24-7-1992 (#)	30,185
Workshops E1 and F1 10th Floor Hang Fung Industrial Building Phase 1 2G Hok Yuen Street Hung Hom Kowloon Hong Kong	2 workshops on the 10th floor of a 13-storey industrial building	Occupied by the Group as storeroom	Leasehold 150 Years	27 Years (15-9-2047)	41 Years	962	24-7-1992	625

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 2020 (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	40 Years (18-5-2060)	38 Years	1,465	2-5-1994 (#)	227,853
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	17 Years (25-12-2037)	51 Years	55	14-6-1984 (#)	4,053
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	27 Years (30-6-2047)	26 Years	90	30-5-2006** (#)	12,536
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	27 Years (30-6-2047)	26 Years	47	30-5-2006** (#)	23,888
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	27 Years (30-6-2047)	43 Years	432	30-5-2006** (#)	28,118
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	27 Years (30-6-2047)	41 Years	82	30-5-2006**	8,047
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	27 Years (30-6-2047)	40 Years	149	30-5-2006**	8,622
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	27 Years (30-6-2047)	28 Years	527	30-5-2006**	14,881
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	27 Years (30-6-2047)	28 Years	1,053	30-5-2006**	1,661



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 2020 (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	822 Years (26-6-2842)	43 Years	5,451	30-5-2006**	245,921
Units 40-41, Ground Floor Hung Hom Commercial Centre Nos. 37-39 Ma Tau Wai Road Hung Hom 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	27 Years (15-9-2047)	38 Years	184	30-5-2006**	10,251
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)	34 Years (27-12-2054)	37 Years	180	30-5-2006**	12,881
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	882 Years (3-9-2902)	23 Years	168	30-5-2006**	16,845
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	27 Years (30-6-2047)	37 Years	203	1-12-2008	32,179
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	839 Years (26-12-2859)	31 Years	105	16-4-2016	52,480
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	850 Years (04-08-2870)	45 Years	163	28-9-2018 (#)	50,033

Notes:

(#) Revaluation was conducted as at 31 December 2020.

** The acquisition date for those properties vested over from Public Bank (Hong Kong) is 30 May 2006.

