



PUBLIC BANK (HONG KONG) LIMITED

大眾銀行(香港)有限公司



ANNUAL REPORT 2019



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

Tan Sri Dato' Sri Tay Ah Lek
Quah Poh Keat
Dato' Chang Kat Kiam
Chong Yam Kiang

Independent Non-Executive Directors

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

Company Secretary

Chan Sau Kuen

Registered Office and Head Office

2/F, Public Bank Centre
120 Des Voeux Road Central
Central, Hong Kong
Telephone : (852) 2541 9222
Facsimile : (852) 2541 0009
Website : www.publicbank.com.hk

Auditors

Ernst & Young
Certified Public Accountants

Legal Advisers

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

Principal Bankers

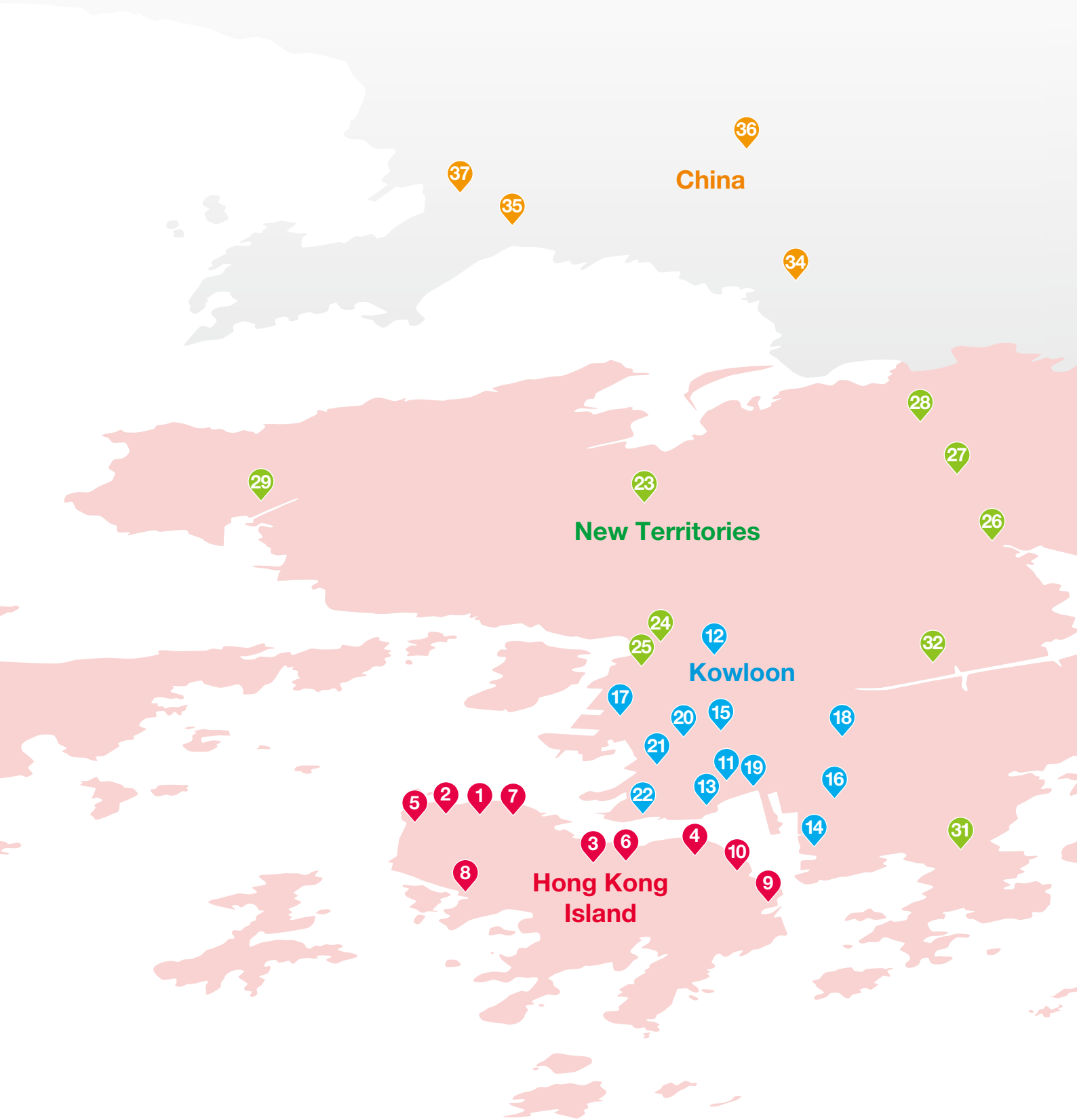
CIMB Bank Berhad
Oversea-Chinese Banking Corporation Limited
Public Bank Berhad
Public Bank (L) Ltd
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited



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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: Louie Sze Ho, Eugene</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 2, G/F, Hong Tai Building
326-332 Shaukeiwan Road
Tel: 2884 3993 Fax: 2885 9283</p> |
| <p>3 Wanchai Commercial Centre
Unit A, 9/F, China Overseas Building
139 Hennessy Road
Tel: 2891 4171 Fax: 2834 1012
Manager: Kwong Hon Wun, Peter</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 9999
Manager: Leung Ho Chuen, Noel</p> |
| <p>12 Kowloon City Branch
G/F, 15 Nga Tsin Wai Road
37 Ma Tau 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 Tsun 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, Lopy</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

- | | | |
|---|---|--|
| <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
G105-106, G/F, Metro City Plaza I
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, 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 : Ye Jun Liang, Leo</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 I J, 24/F, Jin Sui Mansion
No. 379 South Pu Dong Road, Shanghai
People's Republic of China
Tel : (86-21) 5887 8851
Fax : (86-21) 5887 9951
Representative : Yang Min</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> | | |

CHAIRMAN'S STATEMENT

I have the pleasure to report the financial results of the Group for the year ended 31 December 2019.

Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman



FINANCIAL HIGHLIGHTS

Public Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (the "Group") recorded a profit after tax of HK\$443.1 million for the year ended 31 December 2019, representing a decrease of HK\$57.4 million or 11.5% when compared to the previous year. Total loans and advances (including trade bills) of the Group decreased by HK\$1.28 billion or 4.3% to HK\$28.43 billion as at 31 December 2019 from HK\$29.71 billion as at 31 December 2018. Customer deposits of the Group decreased by HK\$1.36 billion or 3.8% to HK\$33.94 billion as at 31 December 2019 from HK\$35.30 billion as at 31 December 2018.

The Board of Directors (the "Board") had declared an interim dividend of HK\$7.451 (2018: HK\$8.391) per share in July 2019. The Board recommended the payment of a final dividend of HK\$6.123 (2018: HK\$7.797) per share, making a total dividend of HK\$13.574 (2018: HK\$16.188) per share for 2019. The total dividend declared and recommended for the year 2019 amounted to HK\$201.1 million.

For the year under review, the Group's interest income increased by HK\$76.8 million or 4.1% to HK\$1.93 billion mainly from higher interest yield on loan portfolio and other interest bearing assets, whilst interest expense increased by HK\$110.7 million or 25.4% to HK\$547.1 million mainly due to higher cost of funding of customer deposits. Consequently, the Group's net interest income decreased by HK\$34.0 million or 2.4% to HK\$1.38 billion from HK\$1.42 billion in the previous year. Credit loss expenses increased by HK\$54.1 million or 32.1% to HK\$222.3 million, from increase in provisions of unsecured consumer financing loans in the current year. Total operating income of the Group decreased by HK\$18.4 million or 1.1% to HK\$1.62 billion for the year 2019, mainly due to the decrease in net interest income. Total operating expenses (before changes in fair value of investment properties) of the Group increased by HK\$14.0 million or 1.6% to HK\$886.7 million mainly due to increase in staff related and information system costs. Gain from the changes in fair value of investment properties increased by HK\$14.2 million to HK\$24.1 million as compared to the previous year.

CHAIRMAN'S STATEMENT

LOANS AND CUSTOMER DEPOSITS

During the year under review, the Bank recorded a decrease in total loans and advances (including trade bills) of HK\$1.36 billion or 5.7% to HK\$22.29 billion as at 31 December 2019. Public Finance Limited ("Public Finance"), a subsidiary of the Bank, recorded an increase in total loans and advances of HK\$77.9 million or 1.3% to HK\$6.14 billion as at 31 December 2019.

During the year under review, the Bank's customer deposits (excluding deposits from a subsidiary) decreased by HK\$1.45 billion to HK\$28.57 billion as at 31 December 2019. Public Finance recorded an increase in customer deposits of HK\$110.3 million or 2.0% to HK\$5.58 billion as at 31 December 2019.

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

The Group will also continue to improve its operating cost efficiency, and streamline the support services of the combined branch network of the Group.

BRANCH NETWORK

The Bank, which has a branch network of 32 branches in Hong Kong and 5 branches in Shenzhen in the People's Republic of China ("PRC"), continued to focus on providing a broad range of commercial and retail banking services to its targeted market segments during the year under review. Public Finance, which has a branch network of 44 branches in Hong Kong, continued to focus on its core business in personal lendings in 2019. The Group had a combined network of 81 branches as at the end of 2019. The Group also undertakes securities trading business through two stockbroking subsidiaries.

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. I would also like to express our appreciation and gratitude to the Hong Kong Monetary Authority ("HKMA"), the Securities and Futures Commission ("SFC") and other relevant authorities for their invaluable advice, guidance and support.

Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman

OUR CORPORATE FAMILY

CORPORATE EVENTS & RECREATIONAL ACTIVITIES



1. Senior management of the Bank at Business Forum 2019.
2. Group photo of Heads of Departments/Business Units and Branch Managers with senior management of the Bank.
3. Staff singing Public Bank's corporate song at the Business Forum 2019.
4. Senior management toasting on stage at the Group's Annual Dinner 2019.
5. Department heads and senior management of the Bank at the Group's Annual Dinner 2019.
6. The Organising Committee posing with the professional artist at the Group's Annual Dinner 2019.

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

OUR CORPORATE FAMILY MARKETING & PROMOTIONS

大眾銀行 (香港) PUBLIC BANK (HONG KONG)

大眾銀行服務 ■ 助您財富增值

存款服務

- 「生息」往來戶口
- 「高息」儲蓄戶口
- 定期存款

貸款服務

- 私人貸款
- 樓宇按揭貸款
- 汽車貸款

證券服務

信用卡服務

大中華業務

www.publicbank.com.hk 借定唔借？還得到先好借！ 8107 0818

大眾銀行 (香港) PUBLIC BANK (HONG KONG)

低息私人貸款計劃

配合財務需要 實現人生目標

結餘轉戶計劃

訂立優惠方案 清走卡數

每月平息低至 **0.11%**
(實際年息率3.41%)²

貸款額高達 **HK\$800,000²**

還款期長達 **60個月²**

www.publicbank.com.hk 借定唔借？還得到先好借！ 私人貸款中心 申請專線 2480 8888

大眾銀行 (香港) PUBLIC BANK (HONG KONG)

「升息儲蓄投資組合」

開立「高息」儲蓄戶口¹ + 設立自動轉賬出禮服務² + 開立儲蓄戶口¹ = 儲蓄利率高達 **1% p.a.**

精選銀行服務費用 可享折扣優惠 高達 **50%³**

www.publicbank.com.hk 8107 0818



大眾財務
個人化息率 智慧錢私人貸款

特快清卡數
夢想成真 智方便

每月平低至 **0.18%***
- 由 HK\$10,000 起, 日息低至 **HK\$0.6***

貸款熱線 **2848 1888**
網上申請 www.publicfinance.hk/loan

還款年期	大眾財務「智慧錢」	節省利息高達 95%
還款年期	HK\$10,000 - HK\$200,000	HK\$200,000 - HK\$500,000
第三級平均利率	HK\$4,974.94	HK\$11,025
還款	每季/半年	24個月
還款息	HK\$285,164.29*	HK\$13,389

大眾財務有限公司 PUBLIC FINANCE LIMITED

大眾財務有限公司 PUBLIC FINANCE LIMITED

大眾財務「0」息私人貸款

RELAX! ☕
特快批核 卡數唔再煩

只需付行政費每年 **HK\$500***
以 HK\$10,000 起, 分 12 個月供款, 每月只需供 HK\$384

貸款熱線 **2848 1888**
網上申請 www.publicfinance.hk/loan

大眾財務有限公司 PUBLIC FINANCE LIMITED

大眾財務有限公司 PUBLIC FINANCE LIMITED

大眾財務送您新年大利是
轉戶大眾過肥年

喜迎金豬 過豐年

高達 **HK\$1,000** 新年大利是*

貸款額高達 **HK\$80 萬***

高達 **HK\$6,000** 即時現金獎賞*

每月平低至 **0.16%***

貸款熱線 **2848 1888**
網上申請 www.publicfinance.hk/loan

大眾財務有限公司 PUBLIC FINANCE LIMITED

大眾財務有限公司 PUBLIC FINANCE LIMITED

大眾財務 個人化低息「稅月」私人貸款

交稅清數 兼享優惠

成功批核及提取貸款即享
高達 **HK\$2,000** 超市購物禮券

還款期長達 **48 個月**
每月平低至 **0.16%***

貸款額高達月薪 **15 倍***
手續費豁免

貸款熱線 **2848 1888**
網上申請 www.publicfinance.hk/loan

大眾財務有限公司 PUBLIC FINANCE LIMITED

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 of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activities of the Group have not changed during the year and consisted of the provision of a comprehensive range of banking, financial and related services.

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 and the Group's financial position as at that date are set out in the financial statements on pages 16 to 125.

Interim dividend of HK\$7.451 (2018: HK\$8.391) per ordinary share was declared and paid during the year. The Directors recommend the payment of a final dividend of HK\$6.123 (2018: HK\$7.797) per ordinary share for the year.

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

Details of movements in the property and equipment, land held under finance leases and investment properties of the Group during the year are set out in notes 23, 24 and 25 to the financial statements, respectively.

SHARE CAPITAL

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

RESERVES

Details of movements in the reserves of the Group and of the Bank during the year are set out in notes 30 and 37(c) to the financial statements, respectively, and the consolidated statement of changes in equity.

DIRECTORS

The Directors of the Bank 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

Tan Sri Dato' Sri Tay Ah Lek

Quah Poh Keat

Dato' Chang Kat Kiam

Chong Yam Kiang (Re-designated as Non-Executive Director on 1 January 2020)

Independent Non-Executive Directors:

Lai Wan, Co-Chairman

Lee Chin Guan

Tang Wing Chew

Executive Director:

Tan Yoke Kong

REPORT OF THE DIRECTORS

DIRECTORS (Continued)

In accordance with Articles 109 and 110 of the Articles of Association of the Bank, Mr. Quah Poh Keat, Mr. Lee Chin Guan and Mr. Chong Yam Kiang shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting ("AGM").

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

Tan Yoke Kong
Chong Yam Kiang
Lee Huat Oon (Resigned as Director on 1 January 2020)
Chiu Chik Shang
Chan Sau Kuen
Chau Man Ching, Gladys
Ma Hin Lap (Resigned as Director on 15 May 2019)

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 Bank were entered into or subsisted during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year or at the end of the year has been/was the Bank or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Bank's Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

EQUITY-LINKED AGREEMENTS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except as detailed in note 33 to the financial statements, there has been no transaction, arrangement or contract of significance in relation to the Bank's business to which the Bank or any of its holding companies, subsidiaries or fellow subsidiaries was a party and in which a Director of the Bank or an entity connected with the Director is or was materially interested, either directly or indirectly, subsisting during or at the end of the year.

PERMITTED INDEMNITY PROVISION

Pursuant to Article 156 of the Bank's Articles of Association and subject to the provisions of the statutes, every Director, secretary or officer of the Bank shall be indemnified out of the funds of the Bank against all liability incurred by him as such Directors, secretary or officer of the Bank in or about the execution or holding of his office or otherwise in relation thereto. The Directors and officers liability insurance for the Bank was/is in force during the year and as at the date on which this Directors' Report is approved in accordance with section 391 of the Hong Kong Companies Ordinance.

REPORT OF THE DIRECTORS

COMPLIANCE WITH SUPERVISORY POLICY MANUAL

The Bank has complied with the Supervisory Policy Manual (“SPM”) Module CG-1 “Corporate Governance of Locally Incorporated Authorised Institutions” issued by the HKMA.

The Bank has also complied with the Banking (Disclosure) Rules issued by the HKMA, and the capital requirements related to capital base and capital adequacy ratio stipulated by the HKMA.

DONATIONS

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

AUDITORS

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

ON BEHALF OF THE BOARD

Lai Wan
Director

Tan Yoke Kong
Director

16 January 2020

INDEPENDENT AUDITOR'S REPORT



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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

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Fax 傳真: +852 2868 4432
ey.com

To the members of Public Bank (Hong Kong) Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Public Bank (Hong Kong) Limited (the “Bank”) and its subsidiaries (the “Group”) set out on pages 16 to 125, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Other Information Included in the Annual Report

The directors of the Bank 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.

INDEPENDENT AUDITOR'S REPORT

Responsibilities of the Directors for the Consolidated Financial Statements

The directors of the Bank 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 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 Bank 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 Bank either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Bank 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 405 of the Hong Kong Companies Ordinance, 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.
- 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.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- 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.

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

16 January 2020

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Interest income	8	1,930,259	1,853,499
Interest expense	8	(547,078)	(436,345)
NET INTEREST INCOME		1,383,181	1,417,154
Other operating income	9	236,342	220,779
OPERATING INCOME		1,619,523	1,637,933
Operating expenses	10	(886,737)	(872,743)
Changes in fair value of investment properties		24,078	9,837
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		756,864	775,027
Credit loss expenses	11	(222,301)	(168,242)
PROFIT BEFORE TAX		534,563	606,785
Tax	13	(91,471)	(106,294)
PROFIT FOR THE YEAR		443,092	500,491
ATTRIBUTABLE TO:			
Owners of the Bank		443,092	500,491

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000
PROFIT FOR THE YEAR	443,092	500,491
OTHER COMPREHENSIVE INCOME FOR THE YEAR		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations, net of tax	(14,576)	(46,826)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	428,516	453,665
ATTRIBUTABLE TO:		
Owners of the Bank	428,516	453,665

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
ASSETS			
Cash and short term placements	15	4,443,550	3,953,045
Placements with banks and financial institutions maturing after one month but not more than twelve months	16	1,532,536	1,556,342
Derivative financial instruments		15,445	2,541
Loans and advances and receivables	17	28,288,280	29,594,033
Equity investments at fair value through other comprehensive income	18	6,804	6,804
Held-to-collect debt securities at amortised cost	19	6,078,760	6,202,949
Deferred tax assets	28	34,684	40,531
Tax recoverable		–	579
Intangible assets	22	718	718
Property and equipment	23	124,348	99,953
Land held under finance leases	24	174,818	147,611
Right-of-use assets	20	169,603	–
Investment properties	25	107,475	115,930
Goodwill	26	242,342	242,342
Other assets	21	375,800	218,835
TOTAL ASSETS		41,595,163	42,182,213
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		787,235	572,712
Derivative financial instruments		4,651	7,275
Customer deposits at amortised cost	27	33,941,432	35,297,868
Lease liabilities	20	173,993	–
Current tax payable		63,360	15,826
Deferred tax liabilities	28	18,179	14,327
Other liabilities	21	581,100	445,000
TOTAL LIABILITIES		35,569,950	36,353,008

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK			
Share capital	29	2,854,045	2,854,045
Reserves	30	3,171,168	2,975,160
TOTAL EQUITY		6,025,213	5,829,205
TOTAL EQUITY AND LIABILITIES		41,595,163	42,182,213

Lai Wan
Director

Tan Yoke Kong
Director

Chong Yam Kiang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
TOTAL EQUITY			
As at 1 January (Reported)		5,829,205	5,624,671
Impact of adopting HKFRS 16	5	(6,594)	–
Restated opening balance under HKFRS 16		5,822,611	5,624,671
Profit for the year		443,092	500,491
Other comprehensive income in translation reserve		(14,576)	(46,826)
Total comprehensive income for the year		428,516	453,665
Dividends paid in respect of previous year	14	(115,520)	(124,810)
Dividends paid in respect of current year	14	(110,394)	(124,321)
Balance at the end of the year		6,025,213	5,829,205

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		534,563	606,785
Adjustments for:			
Dividend income from listed investments	9	(103)	(118)
Dividend income from unlisted investments	9	(35)	(700)
Depreciation of property and equipment and land held under finance leases	10	28,829	26,446
Increase in fair value of investment properties	25	(24,078)	(9,837)
Increase in credit loss expenses for loans and advances and receivables		24,185	3,205
Net losses/(gains) on disposal of property and equipment		105	(4)
Increase/(decrease) in credit loss expenses for held-to-collect debt securities at amortised cost and bank placements		24	(33)
Depreciation of right-of-use assets	20	99,117	–
Others interest expenses	8	3,988	–
Gain on termination of leases		(1,184)	–
Payment of dismantling cost		(188)	–
Exchange differences		(14,127)	(46,914)
Profits tax paid		(32,816)	(127,035)
Operating profit before changes in operating assets and liabilities		618,280	451,795
Decrease/(increase) in operating assets:			
Decrease in placements with banks and financial institutions		656,290	220,434
(Increase)/decrease in derivative financial instruments		(12,904)	1,776
Decrease/(increase) in loans and advances and receivables		1,281,568	(402,057)
Increase in held-to-collect debt securities at amortised cost		(74,948)	(321,296)
(Increase)/decrease in other assets		(156,965)	34,533
		1,693,041	(466,610)
Decrease in operating liabilities:			
Increase/(decrease) in deposits and balances of banks and other financial institutions at amortised cost		214,523	(551,080)
(Decrease)/increase in customer deposits at amortised cost		(1,356,436)	1,203,093
Decrease in certificates of deposit issued at amortised cost		–	(753,293)
(Decrease)/increase in derivative financial instruments		(2,624)	5,579
Increase/(decrease) in other liabilities		131,529	(5,746)
		(1,013,008)	(101,447)
Net cash inflow/(outflow) from operating activities		1,298,313	(116,262)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	23	(48,071)	(33,088)
Purchase of an investment property	25	–	(47,100)
Sales proceeds of fixed assets		68	15
Dividends received from listed investments		103	118
Dividends received from unlisted investments		35	700
Net cash outflow from investing activities		(47,865)	(79,355)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on shares		(225,914)	(249,131)
Repayment of lease liabilities		(100,658)	–
Net cash outflow from financing activities		(326,572)	(249,131)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		923,876	(444,748)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		4,103,654	4,548,402
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		5,027,530	4,103,654
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand	35	1,127,835	1,109,389
Money at call and short notice with an original maturity within three months		3,048,856	2,483,734
Placements with banks and financial institutions with an original maturity within three months		617,777	78,319
Held-to-collect debt securities at amortised cost with an original maturity within three months		233,062	432,212
		5,027,530	4,103,654
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		(572,679)	(366,608)
Interest received		1,940,140	1,853,639

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

Reconciliation of Liabilities Arising from Financing Activities

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

	Dividends payable HK\$'000	Lease liabilities HK\$'000	Total liabilities from financing activities HK\$'000
As at 31 December 2018 (Reported)	–	–	–
Impact of adopting HKFRS 16	–	143,732	143,732
Restated opening balance under HKFRS 16 as at 1 January 2019	–	143,732	143,732
Changes from financing cash flows:			
Dividends paid on ordinary shares	(225,914)	–	(225,914)
Repayment of lease liabilities	–	(100,658)	(100,658)
Total changes from financing cash flows	(225,914)	(100,658)	(326,572)
Other changes:			
Dividends declared on ordinary shares	225,914	–	225,914
Additions to lease liabilities	–	131,109	131,109
Interest expense on lease liabilities	–	3,882	3,882
Reassessment on lease liabilities	–	(3,852)	(3,852)
Exchange difference on lease liabilities	–	(220)	(220)
Total other changes	225,914	130,919	356,833
As at 31 December 2019	–	173,993	173,993
			Dividends payable HK\$'000
As at 1 January 2018			–
Changes from financing cash flows:			
Dividends paid on ordinary shares			(249,131)
Total changes from financing cash flows			(249,131)
Other changes:			
Dividends declared on ordinary shares			249,131
Total other changes			249,131
As at 31 December 2018			–

NOTES TO FINANCIAL STATEMENTS

1. Corporate and Group Information

The Bank is a limited liability company and its registered office is located at 2/F, Public Bank Centre, 120 Des Voeux Road Central, Central, Hong Kong. During the year, the Group's principal activities were the provision of a comprehensive range of commercial and retail banking, financial and related services.

The Bank is a wholly-owned subsidiary of Public Financial Holdings Limited ("PFHL"). In the opinion of the Directors, the ultimate holding company of the Bank is Public Bank Berhad, which is incorporated in Malaysia.

Particulars of the Bank's subsidiaries, which are incorporated and operate in Hong Kong, are as follows:

Name	Issued ordinary share capital HK\$	Percentage of equity attributable to the Bank		Principal activities
		Direct %	Indirect %	
Public Financial Securities Limited	48,000,000	100	–	Securities brokerage
Public Bank (Nominees) Limited	100,000	100	–	Provision of nominee services
Public Credit Limited	5,000,000	100	–	In members' voluntary liquidation
Public Futures Limited	2	100	–	Dormant
Public Pacific Securities Limited	12,000,000	100	–	In members' voluntary liquidation
Public 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

NOTES TO FINANCIAL STATEMENTS

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 (the “HKICPA”), accounting principles generally accepted in Hong Kong and the provision of the Hong Kong Companies Ordinance. They have also complied with 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, available-for-sale financial assets, 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 Bank and its subsidiaries for the year ended 31 December 2019.

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Bank. 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).

When the Bank 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 Bank, 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.

NOTES TO FINANCIAL STATEMENTS

3. Basis of Consolidation (Continued)

The subsidiaries consolidated for accounting purposes are as follows:

Name	31 December 2019		31 December 2018		Principal activities
	Total assets HK\$	Total equity HK\$	Total assets HK\$	Total equity HK\$	
Public Financial Securities Limited	62,617,005	48,280,299	75,807,819	48,162,492	Securities brokerage
Public Bank (Nominees) Limited	100,000	100,000	100,000	100,000	Provision of nominee services
Public Credit Limited	-	-	2,471,985	2,471,985	In members' voluntary liquidation
Public Futures Limited	1	1	1	1	Dormant
Public Pacific Securities Limited	-	-	4,749,254	4,749,254	In members' voluntary liquidation
Public Finance Limited*	7,081,648,973	1,318,794,217	6,912,080,102	1,357,152,205	Deposit-taking and financing
Public Financial Limited	10,101,371	10,101,371	10,101,371	10,101,371	Investment holding
Public Securities Limited	334,243,164	187,857,261	208,268,064	170,761,740	Securities brokerage
Public Securities (Nominees) Limited	1,122,167	1,119,667	1,120,596	1,118,096	Provision of nominee services

* The financial entity specified by the HKMA to form the basis of consolidation for regulatory reporting purpose in respect of common equity tier 1 ("CET1") capital ratio, tier 1 capital ratio, total capital ratio, capital conservation buffer ("CCB") ratio, countercyclical capital buffer ("CCyB") ratio, leverage ratio, liquidity maintenance ratio and core funding ratio.

4. Basis of Capital Disclosures

The Group has complied with the capital requirements during the reporting period related to capital base and the capital adequacy ratio as stipulated by the HKMA, and has also complied with 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 Bank 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 Bank's consolidation group except that liquidity, capital and other performance indicators of Public Financial Securities Limited and Public Securities Limited should satisfy the minimum requirements of the Securities and Futures (Financial Resources) Rules issued by the SFC.

NOTES TO FINANCIAL STATEMENTS

4. Basis of Capital Disclosures (Continued)

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

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

5. Accounting Policies

Changes in accounting policies and disclosures

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

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

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

HKFRS 16

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

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

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

NOTES TO FINANCIAL STATEMENTS

5. Accounting Policies (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

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

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

	1 January 2019 HK\$'000
<hr/>	
Deferred tax assets	
Closing balance under HKAS 17 at 31 December 2018	40,531
– Deferred tax effect under HKFRS 16	1,303
<hr/>	
Opening balance under HKFRS 16 at 1 January 2019	41,834
<hr/>	
Right-of-use assets	
Closing balance under HKAS 17 at 31 December 2018	–
– Recognition of right-of-use assets under HKFRS 16	140,315
<hr/>	
Opening balance under HKFRS 16 at 1 January 2019	140,315
<hr/>	
Lease liabilities	
Closing balance under HKAS 17 at 31 December 2018	–
– Recognition of lease liabilities under HKFRS 16	143,732
<hr/>	
Opening balance under HKFRS 16 at 1 January 2019	143,732
<hr/>	
Other liabilities	
Closing balance under HKAS 17 at 31 December 2018	445,000
– Recognition of other liabilities under HKFRS 16	4,480
<hr/>	
Opening balance under HKFRS 16 at 1 January 2019	449,480
<hr/>	
Retained profits	
Closing balance under HKAS 17 at 31 December 2018	2,645,726
– Recognition of right-of-use assets under HKFRS 16	140,315
– Recognition of lease liabilities under HKFRS 16	(143,732)
– Recognition of other liabilities under HKFRS 16	(4,480)
– Deferred tax effect under HKFRS 16	1,303
<hr/>	
Opening balance under HKFRS 16 at 1 January 2019	2,639,132
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NOTES TO FINANCIAL STATEMENTS

5. Accounting Policies (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

Consolidated Statement of Financial Position	31 December 2018 HK\$'000	Remeasurement HK\$'000	1 January 2019 HK\$'000
Assets			
Cash and short term placements	3,953,045	–	3,953,045
Placements with banks and financial institutions maturing after one month but not more than twelve months	1,556,342	–	1,556,342
Derivative financial instruments	2,541	–	2,541
Loans and advances and receivables	29,594,033	–	29,594,033
Equity investments at fair value through other comprehensive income	6,804	–	6,804
Held-to-collect debt securities at amortised cost	6,202,949	–	6,202,949
Deferred tax assets	40,531	1,303	41,834
Tax recoverable	579	–	579
Intangible assets	718	–	718
Property and equipment	99,953	–	99,953
Land held under finance leases	147,611	–	147,611
Right-of-use assets	–	140,315	140,315
Investment properties	115,930	–	115,930
Goodwill	242,342	–	242,342
Other assets	218,835	–	218,835
Total Assets	42,182,213	141,618	42,323,831
Equity and Liabilities			
Liabilities			
Deposits and balances of banks and other financial institutions at amortised cost	572,712	–	572,712
Derivative financial instruments	7,275	–	7,275
Customer deposits at amortised cost	35,297,868	–	35,297,868
Lease liabilities	–	143,732	143,732
Current tax payable	15,826	–	15,826
Deferred tax liabilities	14,327	–	14,327
Other liabilities	445,000	4,480	449,480
Total Liabilities	36,353,008	148,212	36,501,220
Equity attributable to owners of the Bank			
Share capital	2,854,045	–	2,854,045
Reserves	2,975,160	(6,594)	2,968,566
Total Equity	5,829,205	(6,594)	5,822,611
Total Equity and Liabilities	42,182,213	141,618	42,323,831

NOTES TO FINANCIAL STATEMENTS

5. Accounting Policies (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

Nature of the effect of adoption of HKFRS 16

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

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

Leases previously classified as finance leases

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

Leases previously classified as operating leases

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

The Group also applied the available practical expedients wherein it:

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

NOTES TO FINANCIAL STATEMENTS

5. Accounting Policies (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

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

Leases previously classified as operating leases (Continued)

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of HK\$140,315,000 were recognised and presented separately in the statement of financial position.
- Additional lease liabilities of HK\$143,732,000 were recognised.
- Provisions for dismantling cost of HK\$4,480,000 were recognised.
- Deferred tax assets increased by HK\$1,303,000 because of the deferred tax impact of the changes in assets and liabilities.
- The net effect of these adjustments had been adjusted to retained earnings in the amount of HK\$6,594,000.

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

	HK\$'000
Operating lease commitments as at 31 December 2018	122,051
Weighted average incremental borrowing rate as at 1 January 2019	2.73%
Discounted operating lease commitments as at 1 January 2019	110,290
Add:	
Payments in optional extension periods not recognised as at 31 December 2018	33,442
Lease liabilities as at 1 January 2019	143,732

HK(IFRIC)-Int 23

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

NOTES TO FINANCIAL STATEMENTS

5. Accounting Policies (Continued)

Issued but not yet effective HKFRSs

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

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

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

² No mandatory effective date yet determined but available for adoption

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

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

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

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

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 Hong Kong dollars (“HKD”), which is the Bank’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 gain or loss on disposal.

NOTES TO FINANCIAL STATEMENTS

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement

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

(i) *Financial assets*

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

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

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 includes cash and short term placements, placements with banks and financial institutions, loans and advances and receivables, and held-to-collect debt securities.

Financial assets at FVOCI (debt instruments)

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

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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 designated at FVOCI (equity instruments)

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

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

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

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 risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

(ii) Financial liabilities

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

(iii) Offsetting of financial instruments

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

NOTES TO FINANCIAL STATEMENTS

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(5) Fair value measurement

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

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

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

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

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

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

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

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

(6) Impairment of financial assets

The Group recognises an allowance for 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.

NOTES TO FINANCIAL STATEMENTS

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(6) Impairment of financial assets (Continued)

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 loan 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 unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Group
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Group
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

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

NOTES TO FINANCIAL STATEMENTS

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(6) Impairment of financial assets (Continued)

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

(7) Leases

Policy applicable from 1 January 2019

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

Group as a lessee

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

Right-of-use assets

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

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

Lease liabilities

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

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

NOTES TO FINANCIAL STATEMENTS

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(7) Leases (Continued)

Short-term leases and leases of low-value assets

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

Group as a lessor

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

Policy applicable prior to 1 January 2019

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

(i) Group as a lessee

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(7) Leases (Continued)

Policy applicable prior to 1 January 2019 (Continued)

(ii) *Group as a lessor*

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

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

(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.

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 (Continued)

(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".

(9) Cash and cash equivalents

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

(10) Business combinations and goodwill

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(10) Business combinations and goodwill (Continued)

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

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

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

(11) Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (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 estimated useful lives are as follows:

- Buildings Over the shorter of the remaining lease terms and 50 years
- Leasehold improvements:
 - Own leasehold buildings 3 to 5 years
 - Others Over the shorter of the remaining lease terms and 7 years
- Furniture, fixtures, equipment and motor vehicles 3 to 10 years
- Land held under finance leases Over the lease term

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) Impairment of non-financial assets

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

For assets excluding goodwill and deferred tax assets, 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.

NOTES TO FINANCIAL STATEMENTS

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(16) 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.

(17) 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.

(18) 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.

NOTES TO FINANCIAL STATEMENTS

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(18) Income tax (Continued)

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.

(19) 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.

NOTES TO FINANCIAL STATEMENTS

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(20) 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 the general meeting.

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

6. Significant Accounting Estimates and Judgements

Estimation uncertainty

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

Impairment allowances on loans and advances and receivables

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

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

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

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the CGUs to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2019 and 31 December 2018 was HK\$242,342,000. Further details are set out in note 26 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

6. Significant Accounting Estimates and Judgements (Continued)

Estimation uncertainty (Continued)

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.

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 comprise mainly the 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 2019 and 31 December 2018.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Segment revenue								
External:								
Net interest income/ (expenses)	1,383,979	1,417,392	(798)	(238)	-	-	1,383,181	1,417,154
Other operating income:								
Fees and commission income	143,662	151,431	52,781	46,334	-	-	196,443	197,765
Others	31,937	13,575	(4)	(8)	7,966	9,447	39,899	23,014
Operating income	1,559,578	1,582,398	51,979	46,088	7,966	9,447	1,619,523	1,637,933
Operating profit after credit loss expenses before tax	479,100	568,388	28,602	22,855	26,861	15,542	534,563	606,785
Tax							(91,471)	(106,294)
Profit for the year							443,092	500,491
Other segment information								
Depreciation of property and equipment and land held under finance leases	(28,829)	(26,446)	-	-	-	-	(28,829)	(26,446)
Depreciation of right-of-use assets	(99,117)	-	-	-	-	-	(99,117)	-
Change in fair value of investment properties	-	-	-	-	24,078	9,837	24,078	9,837
Credit loss expenses	(222,301)	(168,242)	-	-	-	-	(222,301)	(168,242)
Net (losses)/gains on disposal of property and equipment	(105)	4	-	-	-	-	(105)	4

NOTES TO FINANCIAL STATEMENTS

7. Segment Information (Continued)

Operating segment information (Continued)

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

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Segment assets other than intangible assets and goodwill	40,784,531	41,472,558	425,413	309,555	107,475	115,930	41,317,419	41,898,043
Intangible assets	-	-	718	718	-	-	718	718
Goodwill	242,342	242,342	-	-	-	-	242,342	242,342
Segment assets	41,026,873	41,714,900	426,131	310,273	107,475	115,930	41,560,479	42,141,103
Unallocated assets: Deferred tax assets and tax recoverable							34,684	41,110
Total assets							41,595,163	42,182,213
Segment liabilities	35,300,157	36,230,027	184,779	89,378	3,475	3,450	35,488,411	36,322,855
Unallocated liabilities: Deferred tax liabilities and tax payable							81,539	30,153
Total liabilities							35,569,950	36,353,008
Other segment information								
Additions to non-current assets – capital expenditure	48,071	80,188	-	-	-	-	48,071	80,188

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 2019 and 31 December 2018.

	2019 HK\$'000	2018 HK\$'000
Segment revenue from external customers:		
Hong Kong	1,489,486	1,505,947
Mainland China	130,037	131,986
	1,619,523	1,637,933

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 assets information for geographical segments as at 31 December 2019 and 31 December 2018.

	2019 HK\$'000	2018 HK\$'000
Non-current assets:		
Hong Kong	794,154	590,173
Mainland China	25,150	16,381
	819,304	606,554

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

Operating income or revenue from major customers

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

NOTES TO FINANCIAL STATEMENTS

8. Interest Income and Expense

	2019 HK\$'000	2018 HK\$'000
Interest income from:		
Loans and advances and receivables	1,675,376	1,626,440
Short term placements and placements with banks	118,439	125,236
Held-to-collect debt securities at amortised cost	136,444	101,823
	1,930,259	1,853,499
Interest expense on:		
Deposits from banks and financial institutions	19,823	10,064
Deposits from customers	522,281	425,894
Bank loans	986	387
Others	3,988	–
	547,078	436,345

Interest income and interest expense for the year ended 31 December 2019, calculated using the effective interest method for financial assets and financial liabilities which are not designated at FVPL, amounted to HK\$1,930,259,000 and HK\$547,078,000 (2018: HK\$1,853,499,000 and HK\$436,345,000) respectively. Interest income on the impaired loans and advances for the year ended 31 December 2019 amounted to HK\$11,139,000 (2018: HK\$8,203,000).

NOTES TO FINANCIAL STATEMENTS

9. Other Operating Income

	2019 HK\$'000	2018 HK\$'000
Fees and commission income:		
Retail and commercial banking	145,666	152,794
Wealth management services, stockbroking and securities management	52,781	46,334
	198,447	199,128
Less: Fees and commission expenses	(2,004)	(1,363)
Net fees and commission income	196,443	197,765
Gross rental income	8,007	9,487
Less: Direct operating expenses	(41)	(40)
Net rental income	7,966	9,447
Gains less losses arising from dealing in foreign currencies	18,149	16,141
Net gains/(losses) on derivative financial instruments	10,794	(4,734)
	28,943	11,407
Net (losses)/gains on disposal of property and equipment	(105)	4
Gain on termination of leases	1,184	–
Dividend income from listed investments	103	118
Dividend income from unlisted investments	35	700
Others	1,773	1,338
	236,342	220,779

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

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

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

NOTES TO FINANCIAL STATEMENTS

10. Operating Expenses

	Notes	2019 HK\$'000	2018 HK\$'000
Staff costs:			
Salaries and other staff costs		511,260	502,476
Pension contributions		23,729	23,176
Less: Forfeited contributions		(158)	(35)
Net contribution to retirement benefit schemes		23,571	23,141
		534,831	525,617
Other operating expenses:			
Operating lease rentals on leasehold buildings		–	101,882
Depreciation of right-of-use assets	20	99,117	–
Depreciation of property and equipment and land held under finance leases	23, 24	28,829	26,446
Auditors' remuneration		3,881	3,893
Administrative and general expenses		80,048	75,770
Others		140,031	139,135
Operating expenses before changes in fair value of investment properties		886,737	872,743

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

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.

	2019			Total HK\$'000
	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	
Net charge for/(write-back of) credit loss expenses:				
– loans and advances	2,741	8,356	211,092	222,189
– trade bills, accrued interest and other receivables	30	22	66	118
– 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	–	–	–	–
	2,765	8,378	211,158	222,301

	2018			Total HK\$'000
	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	
Net charge for/(write-back of) credit loss expenses:				
– loans and advances	3,950	(3,466)	167,851	168,335
– trade bills, accrued interest and other receivables	(13)	(8)	11	(10)
– cash and short term placements	(91)	–	–	(91)
– placements with banks and financial institutions	5	–	–	5
– held-to-collect debt securities at amortised cost	53	–	–	53
– loan commitments	(45)	–	–	(45)
– financial guarantees and letters of credit	(5)	–	–	(5)
	3,854	(3,474)	167,862	168,242

NOTES TO FINANCIAL STATEMENTS

12. Directors' Remuneration

Directors' remuneration, disclosed pursuant to 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 as follows:

	2019	2018
	HK\$'000	HK\$'000
Fees	3,010	3,010
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	6,718	6,408
Retirement benefits contribution	422	390
	10,150	9,808

13. Tax

	Note	2019	2018
		HK\$'000	HK\$'000
Current tax charge:			
Hong Kong		56,870	80,617
Overseas		24,248	23,964
Over-provision in prior years		(200)	(500)
Deferred tax charge, net	28	10,553	2,213
		91,471	106,294

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

NOTES TO FINANCIAL STATEMENTS

13. Tax (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rates for the jurisdictions in which the Bank 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		2019 Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	437,105		97,458		534,563	
Tax at the applicable tax rate	72,123	16.5	24,364	25.0	96,487	18.0
Estimated tax losses not recognised	-	-	-	-	-	-
Estimated tax effect of net (income)/expenses that is/are not (taxable)/deductible	(4,820)	(1.1)	4	-	(4,816)	(0.9)
Adjustment in respect of current tax of previous periods	(200)	-	-	-	(200)	-
Tax charge at the Group's effective rate	67,103	15.4	24,368	25.0	91,471	17.1
	Hong Kong		2018 Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	505,400		101,385		606,785	
Tax at the applicable tax rate	83,391	16.5	25,346	25.0	108,737	17.9
Estimated tax losses not recognised	5	-	-	-	5	-
Estimated tax effect of net (income)/expenses that is/are not (taxable)/deductible	(1,949)	(0.4)	1	-	(1,948)	(0.3)
Adjustment in respect of current tax of previous periods	(500)	(0.1)	-	-	(500)	(0.1)
Tax charge at the Group's effective rate	80,947	16.0	25,347	25.0	106,294	17.5

NOTES TO FINANCIAL STATEMENTS

14. Dividends

(a) Dividends approved and paid during the year

	2019 HK\$ per ordinary share	2018 HK\$ per ordinary share	2019 HK\$'000	2018 HK\$'000
Interim dividend	7.451	8.391	110,394	124,321
Final dividend in respect of previous year	7.797	8.424	115,520	124,810
	15.248	16.815	225,914	249,131

Final dividend of 2018 was paid in 2019 with the consent of shareholders at the 2019 AGM.

(b) Dividends attributable to the year

	2019 HK\$ per ordinary share	2018 HK\$ per ordinary share	2019 HK\$'000	2018 HK\$'000
Interim dividend	7.451	8.391	110,394	124,321
Proposed final dividend	6.123	7.797	90,718	115,520
	13.574	16.188	201,112	239,841

The proposed final dividend was recommended after respective year end and had not been recognised as a liability at respective year end dates. The proposed final dividend of 2019 is subject to the approval of shareholders at the 2020 AGM.

NOTES TO FINANCIAL STATEMENTS

15. Cash and Short Term Placements

	2019 HK\$'000	2018 HK\$'000
Cash on hand	239,719	166,639
Placements with banks and financial institutions	888,116	942,750
Money at call and short notice	3,316,134	2,844,035
Gross cash and short term placements	4,443,969	3,953,424
Less: Impairment allowances collectively assessed		
As at 1 January 2019 and 2018	(379)	(470)
Credit loss expenses (charged)/released to the consolidated income statement during the year	(40)	91
	(419)	(379)
Cash and short term placements	4,443,550	3,953,045

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

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

16. Placements With Banks and Financial Institutions Maturing After One Month But Not More Than Twelve Months

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

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

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

NOTES TO FINANCIAL STATEMENTS

17. Loans and Advances and Receivables

	2019 HK\$'000	2018 HK\$'000
Loans and advances to customers	28,392,106	29,678,111
Trade bills	34,195	29,724
Loans and advances, and trade bills	28,426,301	29,707,835
Accrued interest	77,192	77,363
Other receivables	28,503,493 1,454	29,785,198 1,317
Gross loans and advances and receivables	28,504,947	29,786,515
Less: Impairment allowances*		
– specifically assessed	(69,002)	(55,936)
– collectively assessed	(147,665)	(136,546)
	(216,667)	(192,482)
Loans and advances and receivables	28,288,280	29,594,033

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

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

Loans and advances and receivables are summarised as follows:

	2019 HK\$'000	2018 HK\$'000
Neither past due nor impaired loans and advances and receivables	27,768,607	29,141,861
Past due but not impaired loans and advances and receivables	542,407	446,299
Credit impaired loans and advances	189,553	195,517
Credit impaired receivables	4,380	2,838
Gross loans and advances and receivables	28,504,947	29,786,515

About 62% (31 December 2018: about 61%) of “Neither past due nor impaired loans and advances and receivables” were property mortgage loans and hire purchase loans secured by properties, taxi licences, public light bus licences and vehicles.

NOTES TO FINANCIAL STATEMENTS

17. Loans and Advances and Receivables (Continued)

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

	2019		2018	
	Gross amount HK\$'000	Percentage of total loans and advances %	Gross amount HK\$'000	Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	69,725	0.24	93,180	0.31
One year or less but over six months	7,731	0.03	12,391	0.04
Over one year	30,600	0.11	4,352	0.02
Loans and advances overdue for more than three months	108,056	0.38	109,923	0.37
Rescheduled loans and advances overdue for three months or less	67,422	0.24	67,160	0.23
Impaired loans and advances overdue for three months or less	14,075	0.05	18,434	0.06
Total overdue and impaired loans and advances	189,553	0.67	195,517	0.66

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

	2019 HK\$'000	2018 HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	430	1,647
One year or less but over six months	508	472
Over one year	3,265	288
Trade bills, accrued interest and other receivables overdue for more than three months	4,203	2,407
Impaired trade bills, accrued interest and other receivables overdue for three months or less	177	431
Total overdue and impaired trade bills, accrued interest and other receivables	4,380	2,838

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

NOTES TO FINANCIAL STATEMENTS

17. Loans and Advances and Receivables (Continued)

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

(i) Analysis of overdue loans and advances and receivables

	Hong Kong HK\$'000	2019 Mainland China HK\$'000	Total HK\$'000
Loans and advances and receivables overdue for more than three months	72,440	39,819	112,259
Impairment allowances specifically assessed	46,106	4	46,110
Current market value and fair value of collateral			83,444
	Hong Kong HK\$'000	2018 Mainland China HK\$'000	Total HK\$'000
Loans and advances and receivables overdue for more than three months	83,666	28,664	112,330
Impairment allowances specifically assessed	39,974	3	39,977
Current market value and fair value of collateral			118,970

NOTES TO FINANCIAL STATEMENTS

17. Loans and Advances and Receivables (Continued)

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

(ii) Analysis of impaired loans and advances and receivables

	Hong Kong HK\$'000	2019 Mainland China HK\$'000	Total HK\$'000
Impaired loans and advances and receivables	154,114	39,819	193,933
Impairment allowances specifically assessed	68,998	4	69,002
Current market value and fair value of collateral			113,899

	Hong Kong HK\$'000	2018 Mainland China HK\$'000	Total HK\$'000
Impaired loans and advances and receivables	161,452	36,903	198,355
Impairment allowances specifically assessed	55,932	4	55,936
Current market value and fair value of collateral			157,257

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

NOTES TO FINANCIAL STATEMENTS

17. 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:

	2019 HK\$'000	2018 HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	83,444	118,970
Covered portion of overdue loans and advances	50,011	58,172
Uncovered portion of overdue loans and advances	58,045	51,751

The assets taken as collateral should satisfy the following criteria:

- The market value of the asset is readily determinable or can be reasonably established and verified.
- The asset is marketable and there exists a readily available secondary market for disposal of the asset.
- The Group's right to repossess the asset is legally enforceable without impediment.
- The Group is able to secure control over the asset if necessary.

The main types of guarantors for credit risk mitigation are as follows:

- Central governments with a grading of Aa3 or above
- Unrated public sector enterprises
- Banks with a grading of Baa2 or above
- Unrated corporations
- Individual shareholders and directors of corporate customers

(d) **Repossessed assets**

As at 31 December 2019, the total value of repossessed assets of the Group amounted to HK\$6,240,000 (31 December 2018: HK\$33,160,000).

NOTES TO FINANCIAL STATEMENTS

17. Loans and Advances and Receivables (Continued)

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

	2019		2018	
	Gross amount HK\$'000	Percentage of total loans and advances %	Gross amount HK\$'000	Percentage of total loans and advances %
Loans and advances overdue for three months or less	539,490	1.90	443,414	1.49
Trade bills, accrued interest and other receivables overdue for three months or less	2,917		2,885	

(f) Impairment allowances on loans and advances and receivables and off-balance sheet credit exposures

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

	2019			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	29,415,840	172,320	198,355	29,786,515
New loans/financing originated	8,136,994	142	1,325	8,138,461
Loans/financing derecognised or repaid during the year (other than write-offs)	(9,018,740)	(40,742)	(43,914)	(9,103,396)
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)	(347,504)	(43,433)	390,937	-
Total transfer between stages	(472,507)	117,707	354,800	-
Write-offs	-	-	(316,633)	(316,633)
As at 31 December 2019	28,061,587	249,427	193,933	28,504,947
Arising from:				
Loans and advances	27,955,004	247,549	189,553	28,392,106
Trade bills, accrued interest and other receivables	106,583	1,878	4,380	112,841
	28,061,587	249,427	193,933	28,504,947

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK\$254,390,000.

NOTES TO FINANCIAL STATEMENTS

17. Loans and Advances and Receivables (Continued)

(f) Impairment allowances on loans and advances and receivables and off-balance sheet credit exposures (Continued)

	2018			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 2018	29,065,881	183,542	135,035	29,384,458
New loans/financing originated	9,887,398	99	806	9,888,303
Loans/financing derecognised or repaid during the year (other than write-offs)	(9,120,367)	(42,245)	(23,372)	(9,185,984)
Transfer to 12-month expected credit loss (Stage 1)	58,413	(28,434)	(29,979)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(120,688)	123,144	(2,456)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(354,797)	(63,786)	418,583	–
Total transfer between stages	(417,072)	30,924	386,148	–
Write-offs	–	–	(300,262)	(300,262)
As at 31 December 2018	29,415,840	172,320	198,355	29,786,515
Arising from:				
Loans and advances	29,311,436	171,158	195,517	29,678,111
Trade bills, accrued interest and other receivables	104,404	1,162	2,838	108,404
	29,415,840	172,320	198,355	29,786,515

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK\$240,591,000.

NOTES TO FINANCIAL STATEMENTS

17. Loans and Advances and Receivables (Continued)

(f) **Impairment allowances on loans and advances and receivables and off-balance sheet credit exposure (Continued)**

An analysis of credit risk exposure by the Group's internal credit rating system is as follows:

	2019			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
Internal rating grades:				
Performing				
Pass	27,888,442	–	–	27,888,442
Special mention	173,145	249,427	–	422,572
Non-performing				
Substandard	–	–	134,448	134,448
Doubtful	–	–	47,632	47,632
Loss	–	–	11,853	11,853
Total	28,061,587	249,427	193,933	28,504,947

	2018			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
Internal rating grades:				
Performing				
Pass	29,299,412	–	–	29,299,412
Special mention	116,428	172,320	–	288,748
Non-performing				
Substandard	–	–	128,882	128,882
Doubtful	–	–	64,730	64,730
Loss	–	–	4,743	4,743
Total	29,415,840	172,320	198,355	29,786,515

NOTES TO FINANCIAL STATEMENTS

17. Loans and Advances and Receivables (Continued)

(f) Impairment allowances on loans and advances and receivables and off-balance sheet credit exposure (Continued)

An analysis of changes in the corresponding ECL allowances is as follows:

	2019			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
As at 1 January 2019	106,978	29,568	55,936	192,482
New loans/financing originated	77,558	–	34	77,592
Loans/financing derecognised or repaid during the year (other than write-offs)	(69,337)	(5,787)	(125,372)	(200,496)
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)	(9,680)	(23,109)	32,789	–
Total transfer between stages	(8,568)	(20,944)	29,512	–
Impact on year end expected credit loss of exposures transferred between stages during the year	(413)	35,109	281,756	316,452
Movements due to changes in credit risk	3,501	–	25,228	28,729
Recoveries	–	–	118,541	118,541
Write-offs	–	–	(316,633)	(316,633)
Exchange differences	–	–	–	–
As at 31 December 2019	109,719	37,946	69,002	216,667
Arising from:				
Loans and advances	107,928	37,921	68,871	214,720
Trade bills, accrued interest and other receivables	1,719	25	131	1,875
Loan commitments	69	–	–	69
Financial guarantees and letters of credit	3	–	–	3
	109,719	37,946	69,002	216,667

NOTES TO FINANCIAL STATEMENTS

17. Loans and Advances and Receivables (Continued)

(f) Impairment allowances on loans and advances and receivables and off-balance sheet credit exposure (Continued)

	2018			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
As at 1 January 2018	103,097	33,042	53,144	189,283
New loans/financing originated	79,232	–	27	79,259
Loans/financing derecognised or repaid during the year (other than write-offs)	(67,240)	(7,765)	(141,227)	(216,232)
Transfer to 12-month expected credit loss (Stage 1)	4,070	(990)	(3,080)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(1,918)	2,242	(324)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(8,856)	(23,613)	32,469	–
Total transfer between stages	(6,704)	(22,361)	29,065	–
Impact on year end expected credit loss of exposures transferred between stages during the year	(2,019)	26,651	258,637	283,269
Movements due to changes in credit risk	618	1	21,360	21,979
Recoveries	–	–	135,192	135,192
Write-offs	–	–	(300,262)	(300,262)
Exchange differences	(6)	–	–	(6)
As at 31 December 2018	106,978	29,568	55,936	192,482
Arising from:				
Loans and advances	105,187	29,565	55,871	190,623
Trade bills, accrued interest and other receivables	1,689	3	65	1,757
Loan commitments	99	–	–	99
Financial guarantees and letters of credit	3	–	–	3
	106,978	29,568	55,936	192,482

NOTES TO FINANCIAL STATEMENTS

18. Equity Investments at Fair Value through Other Comprehensive Income

Below is an analysis of the Group's equity investments other than those measured at FVPL:

	2019 HK\$'000	2018 HK\$'000
Unlisted equity investments in corporate entity, at fair value:		
At the beginning and the end of the year	6,804	6,804

The unlisted investments issued by corporate entity are measured at fair value based on the present value of expected cash flows in the foreseeable future.

19. Held-To-Collect Debt Securities at Amortised Cost

	2019 HK\$'000	2018 HK\$'000
Certificates of deposit held	2,212,500	2,269,082
Treasury bills and government bonds (including Exchange Fund Bills)	2,473,783	2,307,321
Other debt securities	1,393,087	1,627,169
Gross held-to-collect debt securities at amortised cost	6,079,370	6,203,572
Less: Impairment allowances collectively assessed		
As at 1 January 2019 and 2018	(623)	(570)
Credit loss expenses released/(charged) to the consolidated income statement during the year	13	(53)
	(610)	(623)
	6,078,760	6,202,949
Listed or unlisted:		
– Listed in Hong Kong	1,112,965	1,785,576
– Listed outside Hong Kong	126,267	189,670
– Unlisted	4,840,138	4,228,326
	6,079,370	6,203,572
Analysed by types of issuers:		
– Central governments	2,473,783	2,307,321
– Public sector entities	199,982	299,914
– Banks and other financial institutions	3,405,605	3,596,337
	6,079,370	6,203,572

NOTES TO FINANCIAL STATEMENTS

19. Held-To-Collect Debt Securities at Amortised Cost (Continued)

There were no impairment allowances specifically assessed made against held-to-collect debt securities at amortised cost as at 31 December 2019 and 31 December 2018.

There were neither impaired nor overdue held-to-collect debt securities at amortised cost as at 31 December 2019 and 31 December 2018.

All exposures attributed to the held-to-collect debt securities at amortised cost were rated with a grading of A3 or above based on the credit rating of Moody's as at 31 December 2019 and 31 December 2018.

20. Right-Of-Use Assets and Lease Liabilities

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

Right-of-use assets:

	Land and buildings HK\$'000
<hr/>	
Cost:	
As at 31 December 2018 (Reported)	–
Impact of adopting HKFRS 16	307,926
Restated opening balance under HKFRS 16 as at 1 January 2019	307,926
Additions	132,459
Reassessment	(3,853)
Written off	(117,547)
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As at 31 December 2019	318,985
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Accumulated depreciation and impairment:	
As at 31 December 2018 (Reported)	–
Impact of adopting HKFRS 16	(167,611)
Restated opening balance under HKFRS 16 as at 1 January 2019	(167,611)
Depreciation provided during the year	(99,117)
Written off	117,547
Exchange difference	(201)
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As at 31 December 2019	(149,382)
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Net carrying amount:	
As at 31 December 2019	169,603
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NOTES TO FINANCIAL STATEMENTS

20. Right-Of-Use Assets and Lease Liabilities (Continued)

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

Lease liabilities:

	Land and buildings HK\$'000
As at 31 December 2018 (Reported)	–
Impact of adopting HKFRS 16	143,732
Restated opening balance under HKFRS 16 as at 1 January 2019	143,732
Additions	131,109
Interest expense	3,882
Payments	(100,658)
Reassessment	(3,852)
Exchange difference	(220)
As at 31 December 2019	173,993

The maturity analysis of lease liabilities is disclosed in note 35 to the financial statements.

The following are the amounts recognised in profit or loss:

	2019 HK\$'000
Depreciation expense of right-of-use assets	99,117
Interest expense on lease liabilities	3,882
Expense relating to leases of low-value assets	2,151
	105,150

The Group had total cash outflows for leases of HK\$100,658,000 in 2019. The future cash outflows relating to leases committed but not yet commenced are disclosed in note 32 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

21. Other Assets and Other Liabilities

Other assets

	2019 HK\$'000	2018 HK\$'000
Interest receivables from financial institutions	36,040	45,750
Other debtors, deposits and prepayments	284,016	152,101
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	55,744	20,984
	375,800	218,835

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

Other liabilities

	2019 HK\$'000	2018 HK\$'000
Interest payable	163,363	188,965
Creditors, accruals and other payables	409,902	243,666
Net amount of accounts payable to HKSCC	7,835	12,369
	581,100	445,000

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

21. Other Assets and Other Liabilities (Continued)

In presenting the amounts due from and to HKSCC, the individual subsidiaries concerned have offset the gross amount of the accounts receivable from and the gross amount of the accounts payable to HKSCC. The amounts offset and the net balances are shown as follows:

	Gross amount HK\$'000	Amount offset HK\$'000	Net amount HK\$'000
Other assets			
2019			
Amount of accounts receivable from HKSCC	253,091	(197,347)	55,744
2018			
Amount of accounts receivable from HKSCC	58,674	(37,690)	20,984
Other liabilities			
2019			
Amount of accounts payable to HKSCC	(205,182)	197,347	(7,835)
2018			
Amount of accounts payable to HKSCC	(50,059)	37,690	(12,369)

22. Intangible Assets

	2019 HK\$'000	2018 HK\$'000
Cost:		
At the beginning and the end of the year	1,923	1,923
Accumulated impairment:		
At the beginning and the end of the year	1,205	1,205
Net carrying amount:		
At the beginning and the end of the year	718	718

Intangible assets represent trading rights held by the Group. The trading rights are retained for stock trading and stockbroking activities, and have indefinite useful lives as the trading rights have no expiry date. They comprise five units (31 December 2018: five units) of Stock Exchange Trading Right and one unit (31 December 2018: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

NOTES TO FINANCIAL STATEMENTS

23. Property and Equipment

	Buildings HK\$'000	Leasehold improvements, furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
Cost:			
As at 1 January 2019	20,666	298,130	318,796
Transfer to investment properties	(18)	-	(18)
Transfer from investment properties	1,617	-	1,617
Additions	-	48,071	48,071
Disposals/write-off	-	(2,491)	(2,491)
As at 31 December 2019	22,265	343,710	365,975
Accumulated depreciation:			
As at 1 January 2019	7,701	211,142	218,843
Provided during the year	458	24,660	25,118
Transfer to investment properties	(16)	-	(16)
Disposals/write-off	-	(2,318)	(2,318)
As at 31 December 2019	8,143	233,484	241,627
Net carrying amount:			
As at 31 December 2019	14,122	110,226	124,348

NOTES TO FINANCIAL STATEMENTS

23. Property and Equipment (Continued)

	Buildings HK\$'000	Leasehold improvements, furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
Cost:			
As at 1 January 2018	18,443	267,222	285,665
Transfer to investment properties	(7)	–	(7)
Transfer from investment properties	2,230	–	2,230
Additions	–	33,088	33,088
Disposals/write-off	–	(2,180)	(2,180)
As at 31 December 2018	20,666	298,130	318,796
Accumulated depreciation:			
As at 1 January 2018	7,277	190,974	198,251
Provided during the year	430	22,337	22,767
Transfer to investment properties	(6)	–	(6)
Disposals/write-off	–	(2,169)	(2,169)
As at 31 December 2018	7,701	211,142	218,843
Net carrying amount:			
As at 31 December 2018	12,965	86,988	99,953

There were no impairment allowances made against the above items of property and equipment as at 31 December 2019 and 31 December 2018. There were no movements in impairment allowances for the years ended 31 December 2019 and 31 December 2018.

NOTES TO FINANCIAL STATEMENTS

24. Land Held Under Finance Leases

	HK\$'000
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Cost:	
As at 1 January 2018	150,466
Transfer to investment properties	(125)
Transfer from investment properties	50,520
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As at 31 December 2018 and 1 January 2019	200,861
Transfer to investment properties	(305)
Transfer from investment properties	31,038
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As at 31 December 2019	231,594
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Accumulated depreciation and impairment:	
As at 1 January 2018	49,646
Transfer to investment properties	(75)
Depreciation provided during the year	3,679
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As at 31 December 2018 and 1 January 2019	53,250
Transfer to investment properties	(185)
Depreciation provided during the year	3,711
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As at 31 December 2019	56,776
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Net carrying amount:	
As at 31 December 2019	174,818
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As at 31 December 2018	147,611
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NOTES TO FINANCIAL STATEMENTS

24. Land Held Under Finance Leases (Continued)

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

	2019 HK\$'000	2018 HK\$'000
Leaseholds:		
Held in Hong Kong		
– On long-term leases	88,556	57,599
– On medium-term leases	74,048	77,242
Held outside Hong Kong		
– On medium-term leases	12,214	12,770
	174,818	147,611

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.

25. Investment Properties

	2019 HK\$'000	2018 HK\$'000
Carrying amount as at 1 January	115,930	111,692
Transfer to property and equipment	(1,617)	(2,230)
Transfer from property and equipment	2	1
Additions	–	47,100
Transfer to land held under finance leases	(31,038)	(50,520)
Transfer from land held under finance leases	120	50
Change in fair value recognised in the consolidated income statement	24,078	9,837
Carrying amount as at 31 December	107,475	115,930

The Group's investment properties are situated in Hong Kong and are held under medium-term leases in Hong Kong.

All investment properties were classified under Level 3 in the fair value hierarchy. During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (31 December 2018: Nil). The Group has assessed that the highest and best use of its properties did not differ from their existing use.

As at 31 December 2019, investment properties were revalued according to the revaluation reports issued by C S Surveyors Limited, a firm of independent professionally qualified valuers. Finance and Control Department has discussions with the valuer on the valuation methodology and valuation results at least twice a year when the valuation is performed for interim and annual financial reporting.

NOTES TO FINANCIAL STATEMENTS

25. Investment Properties (Continued)

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:

	2019		2018	
	Range HK\$	Weighted average HK\$	Range HK\$	Weighted average HK\$
Price per square metre	82,000 to 581,000	264,000	82,000 to 527,000	269,000

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 32(a) to the financial statements.

26. Goodwill

	2019 HK\$'000	2018 HK\$'000
Cost and net carrying amount:		
At the beginning and the end of the year	242,342	242,342

Impairment test of goodwill

There is a CGU, namely Public Finance, which represents an operating entity within the business segment "Retail and commercial banking businesses" identified by the Group. The recoverable amount of the CGU at each subsequent reporting date is determined based on the value-in-use using the present value of cash flows. The cash flow projections are based on financial budgets approved by management covering a 10-year period and assumed growth rates are used to extrapolate the cash flows in the following 40 years. The financial budgets are prepared based on a 10-year business plan which is appropriate after considering the sustainability of business growth, stability of core business developments, long-term economic cycle and achievement of business targets extrapolated from a track record of financial results. All cash flows are discounted at discount rates of 4% and 7% under baseline and stress scenarios, respectively. Management's financial model assumes an average growth rate of 3% to 6% per annum from the eleventh to fiftieth year taking into account long-term gross domestic product growth and other relevant economic factors. The discount rates used are based on the rates which reflect specific risks relating to the CGU.

No impairment loss has been recognised in respect of goodwill for the years ended 31 December 2019 and 31 December 2018 as its value-in-use exceeded its carrying amount.

NOTES TO FINANCIAL STATEMENTS

27. Customer Deposits at Amortised Cost

	2019 HK\$'000	2018 HK\$'000
Demand deposits and current accounts	4,717,733	4,692,889
Savings deposits	6,079,932	6,809,824
Time, call and notice deposits	23,143,767	23,795,155
	33,941,432	35,297,868

28. Deferred Tax

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets:

	Note	Impairment allowances for loans and advances and receivables HK\$'000	Others HK\$'000	Total HK\$'000
As at 1 January 2018		41,799	529	42,328
Deferred tax (charged)/credited to the consolidated income statement		(526)	11	(515)
Exchange difference		(1,256)	(26)	(1,282)
As at 31 December 2018 (Reported)		40,017	514	40,531
Impact of adopting HKFRS 16	5	–	1,303	1,303
Restated opening balance under HKFRS 16 as at 1 January 2019		40,017	1,817	41,834
Deferred tax charged to the consolidated income statement		(5,330)	(1,371)	(6,701)
Exchange difference		(440)	(9)	(449)
As at 31 December 2019		34,247	437	34,684

NOTES TO FINANCIAL STATEMENTS

28. Deferred Tax (Continued)

Deferred tax liabilities:

	Depreciation allowance in excess of related depreciation HK\$'000
As at 1 January 2018	12,629
Deferred tax charged to the consolidated income statement	1,698
As at 31 December 2018 and 1 January 2019	14,327
Deferred tax charged to the consolidated income statement	3,852
As at 31 December 2019	18,179

29. Share Capital

	2019 HK\$'000	2018 HK\$'000
Issued and fully paid:		
14,816,000 (2018: 14,816,000) ordinary shares	2,854,045	2,854,045

NOTES TO FINANCIAL STATEMENTS

30. Reserves

	Notes	Group reconstruction reserve HK\$'000	Capital reserve HK\$'000	Regulatory reserve [#] HK\$'000	Retained profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
As at 1 January 2018		3,065	17,660	312,619	2,378,287	58,995	2,770,626
Profit for the year		-	-	-	500,491	-	500,491
Other comprehensive income		-	-	-	-	(46,826)	(46,826)
Transfer from regulatory reserve to retained profits		-	-	(16,079)	16,079	-	-
Dividends paid in respect of previous year	14	-	-	-	(124,810)	-	(124,810)
Dividends paid in respect of current year	14	-	-	-	(124,321)	-	(124,321)
As at 31 December 2018 (Reported)		3,065	17,660	296,540	2,645,726	12,169	2,975,160
Impact of adopting HKFRS 16	5	-	-	-	(6,594)	-	(6,594)
Restated opening balance under HKFRS 16 as at 1 January 2019		3,065	17,660	296,540	2,639,132	12,169	2,968,566
Profit for the year		-	-	-	443,092	-	443,092
Other comprehensive income		-	-	-	-	(14,576)	(14,576)
Transfer from regulatory reserve to retained profits		-	-	(88,805)	88,805	-	-
Dividends paid in respect of previous year	14	-	-	-	(115,520)	-	(115,520)
Dividends paid in respect of current year	14	-	-	-	(110,394)	-	(110,394)
As at 31 December 2019		3,065	17,660	207,735	2,945,115	(2,407)	3,171,168

[#] 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

31. 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	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:					
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

31. Off-Balance Sheet Exposure (Continued)

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

	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	2018 Credit risk-weighted amount HK\$'000	Positive fair value- assets HK\$'000	Negative fair value- liabilities HK\$'000
Direct credit substitutes	25,674	25,674	21,482	–	–
Transaction-related contingencies	7,249	3,624	–	–	–
Trade-related contingencies	34,272	6,854	6,559	–	–
Forward deposits placed	–	–	–	–	–
Forward asset purchases	–	–	–	–	–
	67,195	36,152	28,041	–	–
Derivatives held for trading: Foreign exchange rate contracts	756,298	10,104	2,021	2,541	7,275
Other commitments with an original maturity of: More than one year	–	–	–	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,110,113	–	–	–	–
	3,933,606	46,256	30,062	2,541	7,275
					2018 Contractual amount HK\$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position					28,711

NOTES TO FINANCIAL STATEMENTS

31. 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 17(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 2019 and 31 December 2018, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

(b) Derivative financial instruments

The Group uses the following derivative financial instruments:

Currency forwards represent commitments to purchase foreign and domestic currencies, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell a foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of interest rates (for example, fixed rate or floating rate). No exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as used for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risk. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

NOTES TO FINANCIAL STATEMENTS

32. Leases

(a) As lessor

The Group leases its investment properties in note 25 under operating lease arrangements, and the terms of the leases range from 1 to 3 years.

As at 31 December 2019 and 31 December 2018, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	2019 HK\$'000	2018 HK\$'000
Within one year	2,784	2,913
In the second to fifth years, inclusive	616	3,016
	3,400	5,929

(b) As lessee

The Group has entered into future lease arrangements with landlords, and the terms of the leases range from 2 to 10 years.

The Group has several lease contracts that include extension options. Management exercises significant judgement in determining whether these extension options are reasonably certain to be exercised (see note 6 to the financial statements). Upon adoption of HKFRS 16 and during the year ended 31 December 2019, management has considered to exercise all extension options available in the lease contracts which have commenced, and therefore, all future cash outflows to which the Group is potentially exposed have already been reflected in the measurement of lease liabilities.

The Group also has certain leases of storage room with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the "short-term lease" and "lease of low-value assets" recognition exemptions for these leases.

As at 31 December 2019, the Group had total future lease payments for lease committed but not yet commenced falling due as follows:

	2019 HK\$'000
Within one year	1,271
In the second to fifth years, inclusive	1,992
Over five years	-
	3,263

As at 31 December 2018, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	2018 HK\$'000
Within one year	68,987
In the second to fifth years, inclusive	52,637
Over five years	427
	122,051

NOTES TO FINANCIAL STATEMENTS

33. Related Party Transactions

During the year, the Group had the following major transactions with related parties in the normal course of business. In addition to those disclosed elsewhere in the financial statements, the details of related party transactions, related expenses and income for the year and outstanding balances as at the year end are as follows:

	Notes	2019 HK\$'000	2018 HK\$'000
Related party transactions included in the consolidated income statement:			
Management fees and bank service charges from a fellow subsidiary	(a)	580	804
Management fees to the immediate holding company	(a)	–	1,305
Rent paid to the immediate holding company	(b)	33,540	35,973
Building management fee to the immediate holding company	(b)	4	83
Interest paid to the ultimate holding company	(e)	3	12
Interest paid to fellow subsidiaries	(e)	260	78
Interest paid to key management personnel	(e)	25	20
Commission income from key management personnel	(j)	–	6
Commission and service fee paid to fellow subsidiaries	(f)	133	153
Commitment fee paid to the ultimate holding company and a fellow subsidiary	(i)	3,978	3,014
Key management personnel compensation:			
– Short term employee benefits	(g)	8,832	8,588
– Post-employment benefits	(g)	341	335
	Notes	2019 HK\$'000	2018 HK\$'000

Related party transactions included in the consolidated statement of financial position:

Cash and short term funds with the ultimate holding company	(c)	120	2,210
Rental deposits and rent prepaid to the immediate holding company	(b)	48,674	52,956
Loans to key management personnel	(d)	18	209
Deposits from the ultimate holding company	(e)	8,712	11,075
Deposits from the immediate holding company	(e)	10,920	3,392
Deposits from fellow subsidiaries	(e)	18,591	16,873
Deposits from key management personnel	(e)	2,508	1,812
Interest payable to a fellow subsidiary	(e)	1	1
Interest payable to key management personnel	(e)	9	3
Amounts due from a fellow subsidiary included in other assets	(h)	657	626

NOTES TO FINANCIAL STATEMENTS

33. Related Party Transactions (Continued)

Notes:

- (a) Management fees arose in respect of administrative services provided to a fellow subsidiary by the Group. They were charged based on costs incurred during the year. Bank service charges arose in respect of banking services provided to the fellow subsidiary by the Group during the year.

In 2018, management fees arose in respect of administrative services provided by the immediate holding company to the Group. They were charged based on costs incurred in 2018.

- (b) Rent paid, rent prepaid, rental deposits and building management fee were related to properties rented from the immediate holding company as the Bank's offices during the year.
- (c) The Group placed deposits with the ultimate holding company. Interests were received/receivable from the ultimate holding company. The balances of the said deposits and interest receivable were included in cash and short term placements and other assets, respectively, in the consolidated statement of financial position.
- (d) These balances represented credit card receivables due from certain Directors of the Bank.
- (e) The ultimate holding company, the immediate holding company, fellow subsidiaries and key management personnel placed deposits with the Bank at the prevailing market rates. Interest expenses were paid/payable by the Bank for the year in respect of these placements. The balances were included in customer deposits in the consolidated statement of financial position. During the year, a revolving credit facility was granted by a fellow subsidiary to a subsidiary of the Group. Interest expense was paid/payable by the subsidiary for the year in respect of this facility.
- (f) During the year, commitment fee was paid to Public Bank (L) Ltd in order to obtain revolving credit facilities granted by Public Bank (L) Ltd to Public Securities Limited. During the year, services fee was paid to Public Investment Bank Berhad from Public Securities Limited for stock broking transactions.
- (g) Further details of the Directors' remuneration are included in note 12 to the financial statements.
- (h) These balances include other receivables from a fellow subsidiary.
- (i) During the year, commitment fees were paid to the ultimate holding company in order to obtain standby facilities granted by the ultimate holding company to the Bank and a subsidiary.
- (j) Commission income was received from key management personnel of the Group for securities dealings through the Group companies.

NOTES TO FINANCIAL STATEMENTS

34. 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 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.

NOTES TO FINANCIAL STATEMENTS

34. Fair Value of Financial Instruments (Continued)

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

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

	2019			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

	2018			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets:				
Derivative financial instruments	–	2,541	–	2,541
Equity investments at fair value through other comprehensive income	–	–	6,804	6,804
	–	2,541	6,804	9,345
Financial liabilities:				
Derivative financial instruments	–	7,275	–	7,275

NOTES TO FINANCIAL STATEMENTS

34. Fair Value of Financial Instruments (Continued)

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

Level 2 financial instruments comprise forward foreign exchange contracts and currency swaps. These instruments have been measured at fair value based on the forward foreign exchange rates that are quoted in an active market. As at 31 December 2019 and 31 December 2018, the effects of discounting were considered insignificant for the Level 2 financial instruments.

Level 3 financial instruments are measured at fair value based on the present value of expected cash flows in the foreseeable future.

For financial instruments measured at fair value on a recurring basis, the Group determines whether transfer has occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. Finance and Control Department performs the valuation of financial instruments required for financial reporting purposes, including Level 3 fair values, at the end of each reporting period. The impact due to changes in fair value of Level 3 financial instruments is insignificant to the Group.

For the years ended 31 December 2019 and 31 December 2018, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the years ended 31 December 2019 and 31 December 2018, there were no issues and settlements related to the Level 3 financial instruments.

There was no gain or loss and no OCI reported in the consolidated income statement and consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the years ended 31 December 2019 and 31 December 2018.

For fair value measurement at Level 3, changing one or more of the inputs to the reasonably possible alternative assumptions would not change the fair value significantly.

NOTES TO FINANCIAL STATEMENTS

35. 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 36 to the financial statements.

	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			
Financial assets:								
Gross cash and short term placements	1,127,835	3,316,134	-	-	-	-	-	4,443,969
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	607,579	2,697,457	1,109,274	2,919,286	7,733,480	13,243,938	193,933	28,504,947
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	-	76,869	375,800
Gross foreign exchange contracts	-	522,902	102,926	387,552	-	-	-	1,013,380
Total financial assets	1,735,641	7,659,412	3,288,978	6,874,522	8,876,862	13,243,938	277,606	41,956,959
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	10,839,806	8,018,572	10,474,590	4,601,386	7,078	-	-	33,941,432
Lease liabilities	-	7,989	15,955	65,705	76,367	7,977	-	173,993
Other liabilities	3,098	276,115	88,347	33,425	113	-	180,002	581,100
Gross foreign exchange contracts	-	512,182	102,907	387,497	-	-	-	1,002,586
Total financial liabilities	11,004,254	9,350,743	10,771,799	5,088,013	83,558	7,977	180,002	36,486,346
Net liquidity gap	(9,268,613)	(1,691,331)	(7,482,821)	1,786,509	8,793,304	13,235,961	97,604	5,470,613

NOTES TO FINANCIAL STATEMENTS

35. Maturity Analysis of Financial Assets and Financial Liabilities (Continued)

	Repayable on demand HK\$'000	Up to 1 month HK\$'000	2018			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			
Financial assets:								
Gross cash and short term placements	1,109,389	2,844,035	-	-	-	-	-	3,953,424
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	789,889	766,609	-	-	-	1,556,498
Gross loans and advances and receivables	1,092,373	3,110,246	957,392	2,963,317	6,725,923	14,738,909	198,355	29,786,515
Equity investments at fair value through other comprehensive income	-	-	-	-	-	-	6,804	6,804
Gross held-to-collect debt securities at amortised cost	-	618,823	1,080,279	2,607,993	1,896,477	-	-	6,203,572
Other assets	123	73,497	16,736	60,616	10,020	-	57,843	218,835
Gross foreign exchange contracts	-	666,893	89,405	-	-	-	-	756,298
Total financial assets	2,201,885	7,313,494	2,933,701	6,398,535	8,632,420	14,738,909	263,002	42,481,946
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	82,592	230,120	240,000	20,000	-	-	-	572,712
Customer deposits at amortised cost	11,529,779	7,227,387	8,656,581	7,252,688	631,433	-	-	35,297,868
Other liabilities	4,114	119,376	30,183	82,919	39,556	-	168,852	445,000
Gross foreign exchange contracts	-	669,297	91,735	-	-	-	-	761,032
Total financial liabilities	11,616,485	8,246,180	9,018,499	7,355,607	670,989	-	168,852	37,076,612
Net liquidity gap	(9,414,600)	(932,686)	(6,084,798)	(957,072)	7,961,431	14,738,909	94,150	5,405,334

NOTES TO FINANCIAL STATEMENTS

36. Risk Management Objectives and Policies

The Group's principal financial liabilities, other than derivatives, comprise customer deposits and deposits and balances of banks and other financial institutions. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as cash and short term placements, held-to-collect debt securities at amortised cost, loans and advances and receivables, and equity investments at FVOCI, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts held for trading. The purpose is to manage or mitigate currency risk arising from the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, market risk, credit risk, liquidity risk and operational risk.

The Group's business activities comprise retail and commercial banking services. These activities expose the Group to a variety of risks, mainly interest rate risk, market risk, credit risk, liquidity risk and operational risk. The respective Boards of the Bank 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 the Bank 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 the Bank and Public Finance.

The Group has established systems, policies and procedures for the control and monitoring of interest rate risk, market risk, credit risk, liquidity risk and operational risk, which are approved by the respective Boards of the Bank 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 the Bank and Public Finance also perform regular audits to ensure compliance with the policies and procedures.

Interest rate risk management

Interest rate risk in banking book ("IRRBB") is internally defined as current or prospective risk arising from adverse movements in market interest rates to the Group's positions in the banking book. Changes in market interest rate affect economic value of interest bearing assets, liabilities and off-balance commitments and net interest income from such financial instruments. The primary objective of interest rate risk management is to minimise/contain the potential adverse effects of interest rate movements in economic value of equity ("EVE") and net interest income ("NII") by closely monitoring the net repricing gap of the Group's assets and liabilities.

The IRRBB comprises gap risk, basis risk and option risk. Gap risk arises from changes in interest rates on assets, liabilities and off-balance sheet positions of different maturity. Basis risk arises from imperfect correlation of timing between changes in the rates earned and paid on different instruments with otherwise similar repricing characteristics. Option risk arises from the optional elements embedded in the Group's assets and liabilities that provide the customer the right to prepay or early repay one's assets or liabilities such that cash flows related to such financial contracts are altered.

NOTES TO FINANCIAL STATEMENTS

36. Risk Management Objectives and Policies (Continued)

Interest rate risk management (Continued)

The Boards of the Bank 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 changing market conditions. Risk Management Departments (“RMDs”) assess, monitor and report interest rate risk exposures daily against approved risk limits to ALCOs, and table 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) and internal parallel up and down scenarios at 100 basis points.

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 and also the two prescribed standardised basis risk scenarios defined by the HKMA as below:

- Scenario 1: All rates except for fixed and managed rates on interest rate-sensitive assets are subject to the parallel up shock; and
- Scenario 2: Managed rates on interest rate-sensitive assets are subject to the parallel down shock while other rates remain unchanged.

NOTES TO FINANCIAL STATEMENTS

36. Risk Management Objectives and Policies (Continued)

Interest rate risk management (Continued)

The key modeling assumptions used by the Group in EVE and NII computation pursuant to the requirements of the HKMA 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.
- (iv) The Group measures IRRBB exposures separately for each significant currency in view that yield curves for different currencies vary from one to another. The Group's significant currency is defined as currency that accounting for at least 5% of total on-balance sheet interest rate-sensitive position in all currencies and that the aggregate of significant currency should account for at least 90% of total on-balance sheet interest rate-sensitive position. The interest rate correlations between different currencies are assumed to be insignificant.

Pursuant to the above methodology and assumptions, the impacts to EVE and NII for the position of 31 December 2019 under various scenarios are as follows:

Scenario	EVE HK\$'000	NII HK\$'000
Parallel up	(97,963)	76,303
Parallel down	101,519	(77,058)
Steeper	34,034	(61,363)
Flattener	(50,835)	75,208
Short rate up	(77,603)	94,003
Short rate down	79,131	(95,731)

As the Group applies new methodology and assumptions based on the requirements of the HKMA, the results of impact assessments in year 2019 are not directly comparable to that in year 2018. Further details can be viewed under "Interest rate risk in banking book" in the Regulatory Disclosure Statement for the position date of 31 December 2019 to be published in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 April 2020.

NOTES TO FINANCIAL STATEMENTS

36. Risk Management Objectives and Policies (Continued)

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 the Bank.

The Group's assets and liabilities are mainly denominated in HKD, United States dollars ("USD"), Renminbi ("RMB"), Australian dollars ("AUD"), New Zealand dollars ("NZD") and Canadian dollars ("CAD"). The Group has limited foreign currency risk as the Group's net foreign currency positions are small, except for net structural position of RMB denominated operating capital.

As at 31 December 2019, if RMB had strengthened or weakened by 100 basis points against HKD with all other variables held constant, the Group's equity would have increased or decreased by HK\$11 million (31 December 2018: HK\$11 million) mainly as a result of foreign exchange impact arising from the net structural position of RMB denominated operating capital.

Foreign currency exposures with a net position which constitutes not less than 10% of the total net position in all foreign currencies of the Bank are as follows:

	Spot assets HK\$'million	Spot liabilities HK\$'million	Forward purchases HK\$'million	Forward sales HK\$'million	Net short position HK\$'million	Structural assets HK\$'million
As at 31 December 2019						
USD	5,366	4,952	283	710	(13)	-
RMB	1,841	1,853	249	250	(13)	1,119
AUD	853	934	82	4	(3)	-
Others	600	895	324	30	(1)	-
	8,660	8,634	938	994	(30)	1,119

	Spot assets HK\$'million	Spot liabilities HK\$'million	Forward purchases HK\$'million	Forward sales HK\$'million	Net long/(short) position HK\$'million	Structural assets HK\$'million
As at 31 December 2018						
USD	5,405	4,775	63	695	(2)	-
RMB	1,737	1,731	1	2	5	1,139
AUD	951	1,023	93	25	(4)	-
NZD	149	413	263	-	(1)	-
CAD	107	108	1	-	-	-
Others	276	427	157	6	-	-
	8,625	8,477	578	728	(2)	1,139

NOTES TO FINANCIAL STATEMENTS

36. 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 the Bank 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 respective Boards or dedicated committees). Segregation of duties in key credit functions is in place to ensure separate credit control and monitoring. Management and recovery of problem credits are handled by an independent work-out team.

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and its capital resources. Its policy on connected lending exposure defines and states connected parties, statutory and applicable connected lending limits, types of connected transactions, the taking of collateral, the capital adequacy treatment, and detailed procedures and controls for monitoring connected lending exposures. In general, interest rates and other terms and conditions applying to connected lending should not be more favourable than those of the loans offered to non-connected borrowers under similar circumstances. The terms and conditions should be determined on normal commercial terms at arm's length and in the ordinary course of business of the Group.

Credit and compliance audits are periodically conducted by Internal Audit Departments of the Bank and Public Finance to evaluate the effectiveness of the credit review, approval and monitoring processes and to ensure that the established credit policies and procedures are complied with.

Compliance Departments of the Bank 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.

Credit Committees of the Bank 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 the Bank 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.

NOTES TO FINANCIAL STATEMENTS

36. Risk Management Objectives and Policies (Continued)

Credit risk management (Continued)

RMCs of the Bank 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 the Bank 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 17 to the financial statements.

Loans and advances and receivables that were neither past due nor impaired were related to a large number of diversified customers for whom there was no recent history of default.

Maximum credit exposures for off-balance sheet items without taking into account the fair value of collateral are as follows:

	2019 HK\$'000	2018 HK\$'000
Credit related contingent liabilities	44,409	67,195
Loan commitments and other credit related commitments	3,231,993	3,110,113

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 Boards of the Bank and Public Finance have 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 the Bank and Public Finance or committees delegated by the respective Boards.

ALCOs of the Bank 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 the Bank 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.

NOTES TO FINANCIAL STATEMENTS

36. Risk Management Objectives and Policies (Continued)

Liquidity risk management (Continued)

RMDs of the Bank 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 the Bank 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 the Bank or Public Finance will be presented by the respective ALCOs to their RMCs and the Boards.

The liquidity risk related metrics of the Bank 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 the Bank 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 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 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.

NOTES TO FINANCIAL STATEMENTS

36. Risk Management Objectives and Policies (Continued)

Liquidity risk management (Continued)

The Group maintains sufficient liquidity cushion comprising mainly bills, notes or bonds issued by eligible central governments in total amount of not less than HK\$1.5 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.

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 the institution-specific stress scenario, loan repayments from some customers are assumed to be delayed. The projected cash inflow would be affected by the increased amount of rollover of banking facilities by some corporate customers or reduced by the amount of retail loan delinquencies. Regarding cash-outflow projection, part of undrawn banking facilities are not to be utilised by borrowers or honoured by the Group. The core deposits ratio would decrease as there would be early withdrawals of some fixed deposits before contractual maturity dates or there would be fewer renewals of fixed deposits on the contractual maturity dates. In the general market stress scenario, some undrawn banking facilities are not to be honoured upon drawdown as some bank counterparties will not have sufficient liquidity to honour their obligations in market. The Group may pledge or liquidate its liquid assets such as debt securities (including but not limited to treasury bills or notes or bonds issued by eligible central governments) to secure funding to address potential liquidity crisis. Liquidity stress-tests are conducted regularly (at least monthly) and the results are utilised for part of 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 the Bank and Public Finance) and the Bank are required to comply with the liquidity maintenance ratio requirement and core funding ratio requirement whilst Public Finance is required to comply with the liquidity maintenance ratio requirement only.

	2019	2018
Liquidity Maintenance Ratio		
– Public Bank (Hong Kong) Group	48.3%	45.4%
– The Bank	46.9%	44.7%
– Public Finance	73.3%	56.1%
Core Funding Ratio		
– Public Bank (Hong Kong) Group	132.2%	133.6%
– The Bank	129.4%	131.3%

The average liquidity maintenance ratio and core funding ratio are computed using the arithmetic mean of each calendar month's average ratio as reported in the return relating to the liquidity position submitted to the HKMA.

NOTES TO FINANCIAL STATEMENTS

36. 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. the Bank 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 the Bank 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 the Bank 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 flow to and from Mainland China is subject to the supervision and approval of SAFE. In view of the limitation on transferability of liquidity, Mainland China Office has maintained high and sufficient liquidity to meet its business needs. As at 31 December 2019, 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	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 deposit 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	10,842,351	8,062,458	10,605,500	4,679,337	7,662	-	-	34,197,308
Deposits and balances of banks and other financial institutions at amortised cost	161,373	538,545	90,482	-	-	-	-	790,400
Lease liabilities	-	8,290	16,541	67,724	79,565	8,289	-	180,409
Other liabilities	-	237,735	-	-	-	-	180,002	417,737
	14,157,824	9,444,036	10,829,834	5,156,959	87,766	8,421	180,002	39,864,842

NOTES TO FINANCIAL STATEMENTS

36. Risk Management Objectives and Policies (Continued)

Liquidity risk management (Continued)

	Repayable on demand HK\$'000	Up to 1 month HK\$'000	2018			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 deposit placed	-	-	-	-	-	-	-	-
Gross foreign currency contracts	-	669,297	91,735	-	-	-	-	761,032
Credit related contingent liabilities	29,619	5,648	10,578	19,519	1,700	131	-	67,195
Loan commitments and other credit related commitments	2,870,337	199,050	-	-	40,726	-	-	3,110,113
Customer deposits at amortised cost	11,530,460	7,264,344	8,716,046	7,424,283	671,974	-	-	35,607,107
Deposits and balances of banks and other financial institutions at amortised cost	82,592	231,754	241,449	20,467	-	-	-	576,262
Other liabilities	-	87,184	-	-	-	-	168,851	256,035
	14,513,008	8,457,277	9,059,808	7,464,269	714,400	131	168,851	40,377,744

Further details can be viewed under "Liquidity risk in banking book" in the Regulatory Disclosure Statement for the position date of 31 December 2019 to be published in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 April 2020.

Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, human and system errors or from external events.

The Group has an operational risk management function in place to identify, measure, monitor and control operational risk. Its operational risk management policy defines the responsibilities of various committees, business units and supporting departments, and highlights key operational risk factors and categories with loss event types to facilitate the measurement and assessment of operational risks and their potential impact. Operational risk exposures are monitored by appropriate key risk indicators for tracking and escalation to management for providing early warning signals of increased operational risk or a breakdown in operational risk management. Regular operational risk management reports are received and consolidated from various parties and reported to the ORMC for the monitoring and control of operational risk.

NOTES TO FINANCIAL STATEMENTS

36. Risk Management Objectives and Policies (Continued)

Capital management

Capital of the Group for regulatory and risk management purposes includes share capital, 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 payouts and other relevant factors.

The Group's policy is to maintain a strong capital base to support the development of the Group's businesses and to meet the statutory capital adequacy ratio and other regulatory capital requirements. Capital is allocated to various business activities of the Group depending on the risks taken by each business division and in accordance with the requirements of relevant regulatory bodies, taking into account current and future activities within a time frame of 3 years.

Capital adequacy ratios

The consolidated capital adequacy ratios of the Group are computed in accordance with the provisions of the Banking (Amendment) Ordinance 2012 relating to Basel III capital standards and the amended Capital Rules. The Group has adopted the standardised approach for the calculation of credit risk-weighted exposures and market risk-weighted exposures. The Group has adopted the basic indicator approach and the standardised approach for the calculation of operational risk-weighted exposures of the Bank and Public Finance, respectively.

	31 December 2019	31 December 2018
Consolidated CET1 Capital Ratio	19.7%	18.0%
Consolidated Tier 1 Capital Ratio	19.7%	18.0%
Consolidated Total Capital Ratio	20.9%	19.2%

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

NOTES TO FINANCIAL STATEMENTS

36. Risk Management Objectives and Policies (Continued)

Capital management (Continued)

Capital disclosures

The components of capital base include the following items:

	31 December 2019 HK\$'000	31 December 2018 HK\$'000
CET1 capital instruments	2,854,045	2,854,045
Retained earnings	2,802,593	2,516,840
Disclosed reserves	208,989	312,370
CET1 capital before deduction	5,865,627	5,683,255
Deduct:		
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	(66,184)	(42,107)
Regulatory reserve for general banking risk	(207,735)	(296,540)
Goodwill	(242,342)	(242,342)
Deferred tax assets in excess of deferred tax liabilities	(15,293)	(24,992)
CET1 capital after deduction	5,334,073	5,077,274
Additional Tier 1 capital	-	-
Tier 1 capital after deductions	5,334,073	5,077,274
Reserve attributable to fair value gains	29,784	18,948
Regulatory reserve for general banking risk	207,735	296,540
Collective provisions	85,559	10,719
	293,294	307,259
Tier 2 capital	323,078	326,207
Capital base	5,657,151	5,403,481
Total risk-weighted assets	27,125,207	28,184,838

NOTES TO FINANCIAL STATEMENTS

36. Risk Management Objectives and Policies (Continued)

Capital management (Continued)

Capital conservation buffer (CCB)

Public Bank (Hong Kong) Group is subject to the 2.5% CCB ratio which has been phased-in from 2016. The applicable CCB ratio effective from 1 January 2019 is 2.5%.

Countercyclical capital buffer (CCyB)

The CCyB ratio is an additional layer of CET1 capital which takes effect as an extension of the Basel III CCB.

Public Bank (Hong Kong) Group has reserved a capital buffer for the implementation of CCyB ratio, inclusive of CCyB ratio of 2.0%, to the private sector credit exposures in Hong Kong.

The following table illustrates the geographical breakdown of risk-weighted amounts ("RWA") in relation to private sector credit exposures:

Jurisdiction (J)	Applicable JCCyB ratio in effect %	2019		CCyB ratio %	CCyB amount HK\$'000
		Total RWA used in computation of CCyB ratio 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
2018					
Jurisdiction (J)	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK\$'000		CCyB ratio %	CCyB amount HK\$'000
As at 31 December 2018					
1. Hong Kong	1.875	18,720,870			
2. Mainland China	–	1,973,012			
Total		20,693,882		1.696	351,016

NOTES TO FINANCIAL STATEMENTS

36. 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 Instruction of the Quarterly Template on Leverage Ratio.

	31 December 2019 HK\$'000	31 December 2018 HK\$'000
Consolidated Tier 1 Capital	5,334,073	5,077,274
Consolidated Exposure Measure for Leverage Ratio	41,500,374	42,119,234
Consolidated Leverage Ratio	12.9%	12.1%

The disclosure on leverage ratio has been effective since 31 March 2015 and the relevant disclosures can be viewed in the Regulatory Disclosure Statement for the position date of 31 December 2019 to be published in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 April 2020.

Risk exposures

Class of exposures	Exposures*		2019			
	Rated [#] HK\$'000	Unrated HK\$'000	Total HK\$'000	Risk-weighted amounts		Total HK\$'000
				Rated HK\$'000	Unrated HK\$'000	
On-balance sheet:						
Sovereign	2,771,327	-	2,771,327	140,035	-	140,035
Public sector entity	255,508	-	255,508	51,102	-	51,102
Bank	8,787,961	257,051	9,045,012	3,070,871	72,596	3,143,467
Securities firm	-	520,116	520,116	-	260,058	260,058
Corporate	-	5,544,872	5,544,872	-	5,544,872	5,544,872
Cash items	-	1,423,753	1,423,753	-	226,786	226,786
Regulatory retail	-	10,527,125	10,527,125	-	7,895,344	7,895,344
Residential mortgage loan	-	8,968,048	8,968,048	-	3,724,423	3,724,423
Other non-past due	-	2,204,600	2,204,600	-	2,298,743	2,298,743
Past due	-	114,170	114,170	-	146,950	146,950
Off-balance sheet:						
Over-the-counter ("OTC") derivative transactions						
- foreign exchange contracts	765,527	247,853	1,013,380	4,628	2,479	7,107
Other off-balance sheet items	-	3,276,402	3,276,402	-	24,633	24,633
	12,580,323	33,083,990	45,664,313	3,266,636	20,196,884	23,463,520

NOTES TO FINANCIAL STATEMENTS

36. Risk Management Objectives and Policies (Continued)

Capital management (Continued)

Risk exposures (Continued)

Class of exposures	Rated [#] HK\$'000	Exposures [*]		2018		
		Unrated HK\$'000	Total HK\$'000	Risk-weighted amounts		Total HK\$'000
				Rated HK\$'000	Unrated HK\$'000	
On-balance sheet:						
Sovereign	2,723,107	–	2,723,107	142,308	–	142,308
Public sector entity	304,300	48,027	352,327	60,860	9,605	70,465
Bank	8,520,204	290,042	8,810,246	3,306,595	136,046	3,442,641
Securities firm	–	433,747	433,747	–	216,874	216,874
Corporate	–	6,464,508	6,464,508	–	6,464,508	6,464,508
Cash items	–	1,414,476	1,414,476	–	229,302	229,302
Regulatory retail	–	10,360,777	10,360,777	–	7,770,583	7,770,583
Residential mortgage loans	–	9,282,813	9,282,813	–	3,840,593	3,840,593
Other non-past due	–	2,116,652	2,116,652	–	2,210,795	2,210,795
Past due	–	127,098	127,098	–	162,562	162,562
Off-balance sheet:						
OTC derivative transactions						
– foreign exchange contracts	–	756,298	756,298	–	2,021	2,021
Other off-balance sheet items	–	3,177,308	3,177,308	–	28,041	28,041
	11,547,611	34,471,746	46,019,357	3,509,763	21,070,930	24,580,693

The Group did not enter into OTC derivative transactions other than foreign exchange contracts with counterparties during 2019 and 2018. The Group assigns internal capital and credit limits based on the methodology stipulated in the Capital Rules. Counterparties of those OTC derivative transactions are banks and the Group does not place collaterals to such counterparties. The credit exposures attributed to such transactions were considered insignificant.

* Principal amount or credit equivalent amount, net of individual impairment allowances before or after credit risk mitigation.

Exposures are rated by the Bank's External Credit Assessment Institutions ("ECAI"), Moody's with ECAI issue specific ratings or with ECAI inferred ratings. Risk weights are determined based on ECAI ratings pursuant to the Capital Rules.

NOTES TO FINANCIAL STATEMENTS

36. Risk Management Objectives and Policies (Continued)

Capital management (Continued)

Risk exposures (Continued)

	31 December 2019	
	Risk-weighted exposures HK\$'000	Capital requirements/ charge HK\$'000
Credit risk	23,463,520	1,877,082
Credit risk – credit valuation adjustment	3,275	262
Market risk – foreign exchange exposures	1,105,963	88,477
Operational risk	2,652,138	212,171
Deductions	(99,689)	
	27,125,207	
	31 December 2018	
	Risk-weighted exposures HK\$'000	Capital requirements/ charge HK\$'000
Credit risk	24,580,693	1,966,455
Credit risk – credit valuation adjustment	1,263	101
Market risk – foreign exchange exposures	1,144,050	91,524
Operational risk	2,608,975	208,718
Deductions	(150,143)	
	28,184,838	

For the years ended 31 December 2019 and 31 December 2018, the Group has adopted the standardised approach for 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 the Bank and Public Finance respectively.

As at 31 December 2019 and 31 December 2018, the Group had no securitisation exposures.

NOTES TO FINANCIAL STATEMENTS

36. Risk Management Objectives and Policies (Continued)

Capital management (Continued)

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 subsidiaries not included in the computation of the consolidated capital adequacy ratios of the Group are Public Bank (Nominees) Limited, Public Credit Limited (in members' voluntary liquidation), Public Futures Limited, Public Pacific Securities Limited (in members' voluntary liquidation), Public Financial Securities Limited, Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited.

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

Capital instruments

To comply with the Banking (Disclosure) Rules, the Group will present all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group's published financial statements in the Regulatory Disclosure Statement for the position date of 31 December 2019 to be published in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 April 2020.

The disclosure will include the following information:

- a description of the main features and full terms and conditions of the Group's capital instruments;
- a detailed breakdown of the Group's CET1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions, using the standard disclosure template as specified by the HKMA; and
- a full reconciliation between the Group's accounting and regulatory balance sheets, using the standard disclosure template as specified by the HKMA.

The following is a summary of the Group's CET1 capital instruments:

	Note	2019 HK\$'000	2018 HK\$'000
CET1 capital instruments issued by the Bank			
Ordinary shares:			
14,816,000 issued and fully paid ordinary shares	29	2,854,045	2,854,045

Pillar 3 disclosures

Further disclosures with respect to capital adequacy and risk management were shown in the Pillar 3 disclosures templates as required by the Banking (Disclosure) Rules. The Group will publish the Regulatory Disclosure Statement for the position date of 31 December 2019 in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 April 2020.

NOTES TO FINANCIAL STATEMENTS

37. Statement of Financial Position of the Bank

Information about the statement of financial position of the Bank at the end of the reporting year is as follows:

	Note	2019 HK\$'000	2018 HK\$'000
ASSETS			
Cash and short term placements		4,171,451	3,705,445
Placements with banks and financial institutions maturing after one month but not more than twelve months		1,532,536	1,556,342
Derivative financial instruments		15,445	2,541
Loans and advances and receivables	37(a)	22,297,012	23,668,337
Equity investments at fair value through other comprehensive income		6,804	6,804
Held-to-collect debt securities at amortised cost		5,754,023	5,903,102
Investments in subsidiaries		1,752,651	1,755,896
Deferred tax assets		12,993	11,370
Tax recoverable		–	567
Property and equipment		104,186	82,907
Land held under finance leases		153,216	137,008
Right-of-use assets		102,385	–
Investment properties		117,320	89,790
Other assets		195,956	171,920
TOTAL ASSETS		36,215,978	37,092,029

NOTES TO FINANCIAL STATEMENTS

37. Statement of Financial Position of the Bank (Continued)

	Notes	2019 HK\$'000	2018 HK\$'000
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		1,081,443	869,859
Derivative financial instruments		4,651	7,275
Customer deposits at amortised cost	37(b)	28,605,427	30,068,398
Lease liabilities		105,585	–
Current tax payable		26,509	1,214
Deferred tax liabilities		14,520	10,796
Other liabilities		331,577	333,344
TOTAL LIABILITIES		30,169,712	31,290,886
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK			
Share capital		2,854,045	2,854,045
Reserves	37(c)	3,192,221	2,947,098
TOTAL EQUITY		6,046,266	5,801,143
TOTAL EQUITY AND LIABILITIES		36,215,978	37,092,029

Lai Wan
Director

Tan Yoke Kong
Director

Chong Yam Kiang
Director

NOTES TO FINANCIAL STATEMENTS

37. Statement of Financial Position of the Bank (Continued)

(a) Loans and advances and receivables

Information about the loans and advances and receivables of the Bank at the end of the reporting year is as follows:

	2019 HK\$'000	2018 HK\$'000
Loans and advances to customers	22,252,182	23,616,055
Trade bills	34,195	29,724
Loans and advances, and trade bills	22,286,377	23,645,779
Accrued interest	32,604	32,453
Other receivables	22,318,981 1,454	23,678,232 1,317
Gross loans and advances and receivables	22,320,435	23,679,549
Less: Impairment allowances*		
– specifically assessed	(7,160)	(3,823)
– collectively assessed	(16,263)	(7,389)
	(23,423)	(11,212)
Loans and advances and receivables	22,297,012	23,668,337

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

* The balances also include the impairment allowances of HK\$51,000 and HK\$66,000 on off-balance sheet credit exposures as at 31 December 2019 and 31 December 2018 respectively.

NOTES TO FINANCIAL STATEMENTS

37. Statement of Financial Position of the Bank (Continued)

(a) Loans and advances and receivables (Continued)

Loans and advances and receivables are summarised as follows:

	2019 HK\$'000	2018 HK\$'000
Neither past due nor impaired loans and advances and receivables	21,876,070	23,313,396
Past due but not impaired loans and advances and receivables	372,102	286,807
Credit impaired loans and advances	67,883	76,599
Credit impaired receivables	4,380	2,747
	22,320,435	23,679,549

About 71% (31 December 2018: about 68%) 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.

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

	2019		2018	
	Gross amount HK\$'000	Percentage of total loans and advances %	Gross amount HK\$'000	Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	17,143	0.08	45,058	0.19
One year or less but over six months	6,764	0.03	11,407	0.05
Over one year	30,600	0.14	1,612	0.01
Loans and advances overdue for more than three months	54,507	0.25	58,077	0.25
Rescheduled loans and advances overdue for three months or less	2,375	0.01	2,995	0.01
Impaired loans and advances overdue for three months or less	11,001	0.05	15,527	0.06
Total overdue and impaired loans and advances	67,883	0.31	76,599	0.32

NOTES TO FINANCIAL STATEMENTS

37. Statement of Financial Position of the Bank (Continued)

(a) Loans and advances and receivables (Continued)

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

	2019 HK\$'000	2018 HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	430	1,647
One year or less but over six months	508	472
Over one year	3,265	197
Trade bills, accrued interest and other receivables overdue for more than three months	4,203	2,316
Impaired trade bills, accrued interest and other receivables overdue for three months or less	177	431
Total overdue and impaired trade bills, accrued interest and other receivables	4,380	2,747

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

37. Statement of Financial Position of the Bank (Continued)

(a) **Loans and advances and receivables (Continued)**

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

a) *Analysis of overdue loans and advances and receivables*

	Hong Kong HK\$'000	2019 Mainland China HK\$'000	Total HK\$'000
Loans and advances and receivables overdue for more than three months	18,891	39,819	58,710
Impairment allowances specifically assessed	5,023	4	5,027
Current market value and fair value of collateral			83,444
	Hong Kong HK\$'000	2018 Mainland China HK\$'000	Total HK\$'000
Loans and advances and receivables overdue for more than three months	31,729	28,664	60,393
Impairment allowances specifically assessed	2,742	3	2,745
Current market value and fair value of collateral			111,930

NOTES TO FINANCIAL STATEMENTS

37. Statement of Financial Position of the Bank (Continued)

(a) **Loans and advances and receivables (Continued)**

(ii) **Geographical analysis of overdue and impaired loans and advances and receivables, and impairment allowances (Continued)**

b) *Analysis of impaired loans and advances and receivables*

	2019		Total HK\$'000
	Hong Kong HK\$'000	Mainland China HK\$'000	
Impaired loans and advances and receivables	32,444	39,819	72,263
Impairment allowances specifically assessed	7,156	4	7,160
Current market value and fair value of collateral			113,899
	2018		Total HK\$'000
	Hong Kong HK\$'000	Mainland China HK\$'000	
Impaired loans and advances and receivables	42,443	36,903	79,346
Impairment allowances specifically assessed	3,819	4	3,823
Current market value and fair value of collateral			150,217

Over 90% (31 December 2018: over 90%) of the Bank'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.

NOTES TO FINANCIAL STATEMENTS

37. Statement of Financial Position of the Bank (Continued)

(a) Loans and advances and receivables (Continued)

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

	2019 HK\$'000	2018 HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	83,444	111,930
Covered portion of overdue loans and advances	50,011	55,432
Uncovered portion of overdue loans and advances	4,496	2,645

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 Bank's right to repossess the asset is legally enforceable without impediment.
- The Bank 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

(iv) Repossessed assets

As at 31 December 2019, the total value of repossessed assets of the Bank amounted to HK\$6,240,000 (31 December 2018: HK\$26,120,000).

NOTES TO FINANCIAL STATEMENTS

37. Statement of Financial Position of the Bank (Continued)

(a) Loans and advances and receivables (Continued)

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

	2019	2018
	Gross amount HK\$'000	Percentage of total loans and advances %
	Gross amount HK\$'000	Percentage of total loans and advances %
Loans and advances overdue for three months or less	369,337	1.66
Trade bills, accrued interest and other receivables overdue for three months or less	2,765	2,753

(b) Customer deposits at amortised cost

The information of the composition of customer deposits of the Bank is as follows:

	2019 HK\$'000	2018 HK\$'000
Demand deposits and current accounts	4,941,684	4,913,999
Savings deposits	6,079,932	6,809,824
Time, call and notice deposits	17,583,811	18,344,575
	28,605,427	30,068,398

NOTES TO FINANCIAL STATEMENTS

37. Statement of Financial Position of the Bank (Continued)

(c) Reserves

Information on the movement of the reserves of the Bank during the reporting year is as follows:

	Property revaluation reserve HK\$'000	Capital reserve HK\$'000	Regulatory reserve [#] HK\$'000	Retained profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
As at 1 January 2018	–	3,660	317,309	2,369,300	58,995	2,749,264
Profit for the year	–	–	–	493,791	–	493,791
Other comprehensive income	–	–	–	–	(46,826)	(46,826)
Transfer from regulatory reserve to retained profits	–	–	(14,872)	14,872	–	–
Dividends paid in respect of previous year	–	–	–	(124,810)	–	(124,810)
Dividends paid in respect of current year	–	–	–	(124,321)	–	(124,321)
As at 31 December 2018 (Reported)	–	3,660	302,437	2,628,832	12,169	2,947,098
Impact of adopting HKFRS 16	–	–	–	(3,384)	–	(3,384)
Restated opening balance under HKFRS 16 as at 1 January 2019	–	3,660	302,437	2,625,448	12,169	2,943,714
Profit for the year	–	–	–	464,896	–	464,896
Other comprehensive income	24,101	–	–	–	(14,576)	9,525
Transfer from regulatory reserve to retained profits	–	–	(40,070)	40,070	–	–
Dividends paid in respect of previous year	–	–	–	(115,520)	–	(115,520)
Dividends paid in respect of current year	–	–	–	(110,394)	–	(110,394)
As at 31 December 2019	24,101	3,660	262,367	2,904,500	(2,407)	3,192,221

[#] The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. It was held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to HKMA's guidelines.

NOTES TO FINANCIAL STATEMENTS

38. Key Elements of Disclosure Policy

The Disclosure Policy of the Bank sets out the approach used by the Bank to (i) determine the content, appropriateness and frequency of the information it discloses to the general public relating to its state of affairs including its profit and loss and its financial resources (including capital/liquidity resources); and (ii) describe its own risk profile as required by the Banking (Disclosure) Rules. Further details of key elements of the Disclosure Policy will be published in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 April 2020.

39. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the Board on 16 January 2020.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(A) Advances to Customers by Industry Sectors

Gross and impaired loans and advances to customers, impairment allowances, impaired loans and advances written off and collateral are analysed by industry sectors pursuant to the HKMA's guidelines as follows:

Group

	31 December 2019								
	Gross loans and advances HK\$'000	Impairment allowances collectively assessed HK\$'000	Impairment allowances specifically assessed HK\$'000	New impairment allowances for loans charged to income statement HK\$'000	Amount of impaired loans and advances written off HK\$'000	Collateral HK\$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK\$'000	Loans and advances overdue for more than three months HK\$'000
Loans and advances for use in Hong Kong									
Manufacturing	352,673	492	-	135	364	338,759	96.1	-	-
Building and construction, property development and investment									
Property development	-	-	-	-	-	-	-	-	-
Property investment	5,562,461	556	-	1	-	5,562,415	100.0	3,613	-
Civil engineering works	192,619	140	-	73	-	104,552	54.3	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	27,493	6	-	-	-	27,307	99.3	-	-
Information technology	1,565	-	-	-	-	1,565	100.0	-	-
Wholesale and retail trade	255,053	699	21	555	47	210,722	82.6	21	21
Transport and transport equipment	4,680,716	12,170	6,667	14,117	1,971	4,377,968	93.5	10,646	8,709
Hotels, boarding houses and catering	98,786	94	-	-	-	95,040	96.2	-	-
Financial concerns	1,009,654	101	-	2	-	1,008,921	99.9	-	-
Stockbrokers									
Margin lending	314,100	31	-	-	-	313,908	99.9	-	-
Others	205,746	21	-	21	-	205,746	100.0	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	20,350	2	-	-	-	20,350	100.0	-	-
Others	368,687	51	-	16	-	368,687	100.0	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme									
	38,044	4	-	-	-	38,044	100.0	-	-
Loans for the purchase of other residential properties									
	7,250,579	723	1	32	-	7,250,579	100.0	14,829	9,411
Loans for credit card advances	9,270	12	75	75	5	-	-	75	42
Loans for other business purposes	47,708	5	-	4	-	47,708	100.0	-	-
Loans for other private purposes	4,485,661	129,695	61,799	401,573	313,021	220,855	4.9	121,565	53,382
Trade finance	862,443	120	14	13	-	842,714	97.7	2,302	-
Other loans and advances	89,497	65	-	48	-	86,863	97.1	-	-
Sub-total	25,873,105	144,987	68,577	416,665	315,408	21,122,703	81.6	153,051	71,565
Loans and advances for use outside Hong Kong	2,519,001	862	294	1,874	1,225	2,482,037	98.5	36,502	36,491
Total loans and advances (excluding trade bills and other receivables)	28,392,106	145,849	68,871	418,539	316,633	23,604,740	83.1	189,553	108,056

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(A) Advances to Customers by Industry Sectors (Continued)

Bank

	31 December 2019								
	Gross loans and advances HK\$'000	Impairment allowances collectively assessed HK\$'000	Impairment allowances specifically assessed HK\$'000	New impairment allowances for loans charged to income statement HK\$'000	Amount of impaired loans and advances written off HK\$'000	Collateral HK\$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK\$'000	Loans and advances overdue for more than three months HK\$'000
Loans and advances for use in Hong Kong									
Manufacturing	341,589	323	-	-	364	338,759	99.2	-	-
Building and construction, property development and investment									
Property development	-	-	-	-	-	-	-	-	-
Property investment	5,521,675	552	-	-	-	5,521,629	100.0	3,613	-
Civil engineering works	184,880	21	-	-	-	104,552	56.6	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	27,307	3	-	-	-	27,307	100.0	-	-
Information technology	1,565	-	-	-	-	1,565	100.0	-	-
Wholesale and retail trade	209,938	21	21	-	-	209,633	99.9	21	21
Transport and transport equipment	4,006,481	12,094	6,667	14,112	1,971	3,704,334	92.5	10,646	8,709
Hotels, boarding houses and catering	98,786	94	-	-	-	95,040	96.2	-	-
Financial concerns	1,009,654	101	-	2	-	1,008,921	99.9	-	-
Stockbrokers									
Margin lending	314,100	31	-	-	-	313,908	99.9	-	-
Others	205,746	21	-	21	-	205,746	100.0	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	20,350	2	-	-	-	20,350	100.0	-	-
Others	368,687	51	-	16	-	368,687	100.0	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	38,044	4	-	-	-	38,044	100.0	-	-
Loans for the purchase of other residential properties	6,178,951	616	1	1	-	6,178,951	100.0	14,829	9,411
Loans for credit card advances	9,270	12	75	75	5	-	-	75	42
Loans for other business purposes	47,708	5	-	4	-	47,708	100.0	-	-
Loans for other private purposes	210,249	1,772	247	364	906	186,758	88.8	247	174
Trade finance	862,443	120	14	13	-	842,714	97.7	2,302	-
Other loans and advances	89,497	65	-	48	-	86,863	97.1	-	-
Sub-total	19,746,920	15,908	7,025	14,656	3,246	19,301,469	97.7	31,733	18,357
Loans and advances for use outside Hong Kong	2,505,262	253	4	265	-	2,482,037	99.1	36,150	36,150
Total loans and advances (excluding trade bills and other receivables)	22,252,182	16,161	7,029	14,921	3,246	21,783,506	97.9	67,883	54,507

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(A) Advances to Customers by Industry Sectors (Continued)

Group

	31 December 2018								
	Gross loans and advances HK\$'000	Impairment allowances collectively assessed HK\$'000	Impairment allowances specifically assessed HK\$'000	New impairment allowances for loans charged to income statement HK\$'000	Amount of impaired loans and advances written off HK\$'000	Collateral HK\$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK\$'000	Loans and advances overdue for more than three months HK\$'000
Loans and advances for use in Hong Kong									
Manufacturing	492,056	517	-	144	23	479,807	97.5	-	-
Building and construction, property development and investment									
Property development	-	-	-	-	-	-	-	-	-
Property investment	6,609,583	660	3	206	-	6,609,583	100.0	6,565	2,632
Civil engineering works	226,345	225	-	140	-	134,382	59.4	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	129,458	19	-	8	-	129,080	99.7	-	-
Information technology	3,482	1	-	-	-	3,482	100.0	-	-
Wholesale and retail trade	264,157	813	31	525	-	224,122	84.8	31	31
Transport and transport equipment	4,597,741	3,191	2,833	454	326	4,328,075	94.1	8,772	8,460
Hotels, boarding houses and catering	144,088	132	-	117	-	139,860	97.1	-	-
Financial concerns	992,369	99	-	1	-	991,642	99.9	-	-
Stockbrokers									
Margin lending	433,582	43	-	38	-	433,582	100.0	-	-
Others	-	-	-	-	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	48,267	5	-	-	-	48,267	100.0	-	-
Others	130,231	35	-	8	-	130,231	100.0	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	44,923	5	-	-	-	44,923	100.0	-	-
Loans for the purchase of other residential properties	7,522,045	749	2	167	25	7,522,045	100.0	24,718	21,501
Loans for credit card advances	10,612	40	12	13	36	-	-	12	-
Loans for other business purposes	13,810	1	-	-	-	13,810	100.0	-	-
Loans for other private purposes	4,416,414	126,990	52,842	76,642	298,479	233,585	5.3	117,592	49,817
Trade finance	796,324	107	14	52	-	757,478	95.1	2,385	-
Other loans and advances	103,963	17	-	2	-	102,989	99.1	-	-
Sub-total	26,979,450	133,649	55,737	78,517	298,889	22,326,943	82.8	160,075	82,441
Loans and advances for use outside Hong Kong	2,698,661	1,103	134	704	1,373	2,623,252	97.2	35,442	27,482
Total loans and advances (excluding trade bills and other receivables)	29,678,111	134,752	55,871	79,221	300,262	24,950,195	84.1	195,517	109,923

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(A) Advances to Customers by Industry Sectors (Continued)

Bank

	31 December 2018								
	Gross loans and advances HK\$'000	Impairment allowances collectively assessed HK\$'000	Impairment allowances specifically assessed HK\$'000	New impairment allowances for loans charged to income statement HK\$'000	Amount of impaired loans and advances written off HK\$'000	Collateral HK\$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK\$'000	Loans and advances overdue for more than three months HK\$'000
Loans and advances for use in Hong Kong									
Manufacturing	485,332	400	-	36	-	479,807	98.9	-	-
Building and construction, property development and investment									
Property development	-	-	-	-	-	-	-	-	-
Property investment	6,568,257	656	3	201	-	6,568,257	100.0	6,565	2,632
Civil engineering works	214,915	26	-	12	-	134,382	62.5	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	129,080	13	-	1	-	129,080	100.0	-	-
Information technology	3,482	1	-	-	-	3,482	100.0	-	-
Wholesale and retail trade	222,584	22	31	5	-	222,332	99.9	31	31
Transport and transport equipment	3,858,650	3,107	2,833	428	326	3,589,545	93.0	8,772	8,460
Hotels, boarding houses and catering	144,088	132	-	117	-	139,860	97.1	-	-
Financial concerns	992,369	99	-	1	-	991,642	99.9	-	-
Stockbrokers									
Margin lending	433,582	43	-	38	-	433,582	100.0	-	-
Others	-	-	-	-	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	48,267	5	-	-	-	48,267	100.0	-	-
Others	130,231	35	-	8	-	130,231	100.0	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme									
	44,923	5	-	-	-	44,923	100.0	-	-
Loans for the purchase of other residential properties									
	6,514,288	649	2	91	25	6,514,288	100.0	21,978	18,761
Loans for credit card advances	10,612	40	12	13	36	-	-	12	-
Loans for other business purposes	13,810	1	-	-	-	13,810	100.0	-	-
Loans for other private purposes	223,938	1,672	858	827	648	194,405	86.8	1,570	867
Trade finance	796,324	107	14	52	-	757,478	95.1	2,385	-
Other loans and advances	103,963	17	-	2	-	102,989	99.1	-	-
Sub-total	20,938,695	7,030	3,753	1,832	1,035	20,498,360	97.9	41,313	30,751
Loans and advances for use outside Hong Kong	2,677,360	270	5	85	-	2,623,252	98.0	35,286	27,326
Total loans and advances (excluding trade bills and other receivables)	23,616,055	7,300	3,758	1,917	1,035	23,121,612	97.9	76,599	58,077

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(A) Advances to Customers by Industry Sectors (Continued)

The advances to customers are classified by industry sectors based on the industry in which the granted loans are used. In those cases where loans cannot be classified with reasonable certainty, they are classified according to the known principal activities of the borrowers or by reference to the assets financed according to the loan documentation.

(B) International Claims

The information of international claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties taking into account any recognised risk transfer. In general, recognised risk transfer from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country.

The following tables illustrate the international claims on individual countries or areas taking into account the recognised risk transfer, amounting to 10% or more of the aggregate international claims.

	Banks	Official	Non-bank	Non-	Total
	HK\$'million	sector	financial	financial	HK\$'million
		HK\$'million	institutions	private	
			HK\$'million	sector	
				HK\$'million	
As at 31 December 2019					
1. Developed countries	1,920	9	-	550	2,479
2. Offshore centres, of which	1,246	6	217	2,976	4,445
– Hong Kong	1,017	6	23	2,130	3,176
3. Developing Asia-Pacific, of which	4,174	107	-	2,291	6,572
– China	2,740	107	-	2,226	5,073

	Banks	Official	Non-bank	Non-	Total
	HK\$'million	sector	financial	financial	HK\$'million
		HK\$'million	institutions	private	
			HK\$'million	sector	
				HK\$'million	
As at 31 December 2018					
1. Developed countries	2,138	8	-	500	2,646
2. Offshore centres, of which	793	4	315	3,165	4,277
– Hong Kong	610	4	117	2,291	3,022
3. Developing Asia-Pacific, of which	4,146	86	-	1,371	5,603
– China	2,574	86	-	1,296	3,956

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(C) Mainland Activities

The following table illustrates the disclosure required to be made in respect of the Bank's Mainland China exposures to non-bank counterparties:

Types of counterparties	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total HK\$'million
As at 31 December 2019			
Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	408	–	408
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	419	–	419
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	4	–	4
Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	1,819	–	1,819
Total	2,650	–	2,650
Total assets after provision	36,225		
On-balance sheet exposures as percentage of total assets	7.32%		

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(C) Mainland Activities (Continued)

Types of counterparties	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total HK\$'million
As at 31 December 2018			
Central government, central government-owned entities and their subsidiaries and JVs	348	–	348
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	545	948	1,493
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	40	–	40
Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	1,827	–	1,827
Total	2,760	948	3,708
Total assets after provision	37,103		
On-balance sheet exposures as percentage of total assets	7.44%		

Note:

The analysis of non-bank Mainland China exposures is disclosed with reference to the Banking (Disclosure) Rules and Completion Instruction for the HKMA Return of Mainland Activities.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(D) Disclosure of the Remuneration System

Remuneration Committee

The Bank has established its Remuneration Committee with written terms of reference in compliance with the requirements of the SPM Module CG-5 on "Guideline on a Sound Remuneration System" (the "Remuneration Guideline") issued by the HKMA. The Remuneration Committee has been re-organised and combined with the Nomination Committee of the Bank and re-named as "Nomination and Remuneration Committee" with effect from 1 January 2020 (the "Re-organisation") with the same Chairman and the same composition of members as before the Re-organisation for better efficiency. The Nomination and Remuneration Committee performs basically the same duties of the Nomination Committee and Remuneration Committee before the Re-organisation. Details of its roles and functions are stated in its terms of reference which is available under "Board Committees" section in the Bank's website at www.publicbank.com.hk.

As at 31 December 2019, there were five members in the Remuneration Committee and three of them were Independent Non-Executive Directors. The Remuneration Committee was chaired by Mr. Lai Wan, the Independent Non-Executive Co-Chairman of the Bank. The other members were Tan Sri Dato' Sri Tay Ah Lek, Mr. Lee Chin Guan, Mr. Tang Wing Chew and Mr. Quah Poh Keat.

The Remuneration Committee meets at least once a year to review and make recommendations to the Board of the Bank on the overall remuneration policy (the "Remuneration Policy"), specific remuneration packages and compensation arrangement relating to the termination or appointment of Directors, Chief Executive, senior management and key personnel, and for the formulation and implementation of the Remuneration Policy applicable to all employees of the Bank and its subsidiaries other than Public Finance and its subsidiaries.

A meeting was held in 2019. The attendance of each member in 2019 is set out below:

Name of members	Number of meetings attended in 2019	Attendance rate
Mr. Lai Wan, Chairman of the Committee	1/1	100%
Tan Sri Dato' Sri Tay Ah Lek	1/1	100%
Mr. Lee Chin Guan	1/1	100%
Mr. Tang Wing Chew	1/1	100%
Mr. Quah Poh Keat	1/1	100%

During the year, Directors' fees, annual salary review, allocation of annual discretionary bonus and annual review of the Remuneration Policy and system in compliance with the Remuneration Guideline of the HKMA were reviewed and noted.

Remuneration of the Executive Directors, Chief Executive, senior management and key personnel is determined by reference to factors including the level of workload, responsibilities and commitments, performance and remuneration packages. No individual Director or any of his associates is involved in deciding his own remuneration.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(D) Disclosure of the Remuneration System (Continued)

Remuneration of Directors

The scales of Directors' fees of the Bank for the years 2019 and 2018 are set out as follows:

Board of Directors	2019 Range HK\$	2018 Range HK\$
Chairman/Co-Chairman	202,500 to 205,000	202,500 to 205,000
Other Directors	150,000 to 202,500	150,000 to 202,500

No remuneration was paid to members of the Remuneration Committee for the years 2019 and 2018 except the aforesaid Directors' fees.

Design and structure of the remuneration processes

The Board of the Bank oversees the formulation, maintenance and implementation of the Remuneration Policy.

The Remuneration Committee of the Bank reviews and recommends the remuneration packages of key senior management personnel of the Group (excluding Public Finance and its subsidiaries which had established their own Remuneration Committee and adopted their own Remuneration Policy) in accordance with the authorities and responsibilities as stipulated in its terms of reference to the Board of the Bank for approval.

Remuneration review is submitted to the Board of the Bank by the Remuneration Committee for approval each year.

The Remuneration Committee of the Bank also works closely with the Human Resources Committee, Nomination Committee, Audit Committee, Risk Management Committee and other dedicated committees and departments to (i) review if there are any material non-compliance issues in relation to internal policy and statutory requirements and make adjustments to payments of remuneration whenever necessary, and (ii) decide upon the appraisal system which fairly measures the performance of each key personnel, and make changes to the system when necessary to meet the changing needs of the Bank.

Regular compliance monitoring is imposed to review the management and operation of the remuneration system.

Human Resources Department continues to take initiatives on all human resources matters while Human Resources Committee continues to function in accordance with its terms of reference.

Recommendations related to Heads of Internal Audit Department, Compliance Department and RMD are submitted to the Audit Committee and RMC, where applicable, for endorsement. Discussions and recommendations related to other employees at managerial level made in the meetings of Human Resources Committee are submitted to the Group Human Resources Committee of Public Bank Berhad, the ultimate holding company of the Bank, and where appropriate, to the Remuneration Committee of the Bank for endorsement while discussions and decisions related to non-managerial employees made in the meetings are normally noted in the Board Executive Committee of the Bank.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(D) Disclosure of the Remuneration System (Continued)

The Remuneration Policy of the Bank Group

The Bank adopted the Remuneration Policy in compliance with the Remuneration Guideline. The Remuneration Policy covers the Bank (including all branches and representative offices of the Bank) and its subsidiaries which are subject to the HKMA's consolidated supervision except Public Finance, Public Financial Limited and Public Securities Limited (the "Bank Group"), which have their own remuneration policy. The Remuneration Policy was initiated by the Human Resources Committee and approved by the Board. The Human Resources Committee also reviews and keeps abreast of the legal and regulatory requirements from time to time, and liaises with risk control units including risk management, financial management and compliance functions to strike a balance among sufficient staff motivation, sound remuneration packages and prudent risk management. Any findings and recommendations to be incorporated into the Remuneration Policy will be put forth to the Remuneration Committee for consideration. Having discussed and agreed upon at the Remuneration Committee, the revisions to the Remuneration Policy will be recommended to the Board for approval. The Remuneration Policy is subject to an annual review.

The Bank's Remuneration Policy encourages employee behaviour that supports the Bank's risk tolerance, risk management framework and long-term financial soundness. The policy is established and implemented in line with the objectives, business strategies and long-term goals of the Bank and formulated in a way that will not encourage excessive risks taking by employees but allows the Bank to attract and retain employees with relevant skills, knowledge and expertise to discharge their specific functions. The Bank has considered the risks, including market risk, credit risk, liquidity risk and operational risk, when implementing the remuneration measures, which are closely monitored by various management committees and working groups. The Bank considers and reviews the audit reports and various kinds of performance reports to take account of these risks in the remuneration process. Audit reports cover information on asset quality, credit risk management and operational risk management whilst performance reports state various kinds of business performance indicators such as delinquent rate, net impairment ratio, customer deposit, business growth, etc., which are useful for identification of current and future risks. The employees' performances in controlling these current and future risks are linked with their remuneration rewards. The Board will take the overall performance of the Bank Group, risk management, market trends, and other non-financial measures when deciding on the performance bonus pool. This will be adjusted as and when the Bank considers appropriate. There is no change of remuneration measures over the past year.

Basically, the remuneration package consists of fixed and variable remuneration which are offered in cash. Fixed remuneration refers to basic salary, the year end double pay, and other fixed income while variable remuneration refers to discretionary bonus, sales commission and other variable income. The remuneration packages are determined by taking into consideration the evaluation of the job's responsibilities and contribution, the market pay levels for benchmark positions, and employee's performance. The level of remuneration and the proportion of variable remuneration to fixed remuneration of senior management and key personnel are linked to their level of responsibility undertaken and contribution to business performance and enhancements of efficiency and effectiveness of operations.

When the amount of variable remuneration payout exceeds a predetermined percentage or amount of the annual fixed remuneration of the employee, a deferment period of 3 years will be imposed in order to align the incentive awards to be granted to an individual employee with the long-term value creation and the time horizons of risk. The deferred remuneration will be vested gradually over the 3-year deferment period and no faster than on a pro-rata basis. To conform to the spirit of the Remuneration Guideline and not to undermine the risk management advantage by applying deferment of variable remuneration, if there is any deferred remuneration, hedging exposures in respect of the unvested portion of deferred remuneration by any trading, investment or other financial activities will be restricted.

Subject to the decision of the Remuneration Committee in accordance with the internal guidelines, the deferred remuneration will be forfeited and/or clawed back when it is later established that the data on which the performance measurement for a particular year was based is subsequently proven to have been manifestly misstated; or it is later established that the employee concerned has committed fraud or other malfeasance, or violated any legislation, code or internal control policies of the Bank Group; or there has been a significant downward restatement of the financial performance of the Bank Group; or the employment of the employee is terminated.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(D) Disclosure of the Remuneration System (Continued)

The Remuneration Policy of the Bank Group (Continued)

The award of variable remuneration to the senior management, key personnel and risk taking employees is subject to the aforesaid deferral mechanism which will be reviewed by the Remuneration Committee at least annually and subject to change when necessary.

The remuneration of the employees within the risk control function, including those performing risk management, accounts, audit, compliance and credit management functions, etc., is determined by the performance of individual employees and is independent of the business they oversee. The performance factors of the appraisees in carrying out their core job responsibilities under their respective job functions are assessed in the performance appraisals. Appropriate remuneration will be recommended based on the results of the appraisals annually.

The Bank uses a comprehensive performance measurement framework that incorporates both financial and non-financial performance in determining the size and allocation of variable remuneration. The financial metrics link the variable remuneration to the profits, revenue and other performance measures of the Bank as a whole, and the contribution of business units or departments and an individual employee to the Bank as well. The applicable and material risks associated with the activities of employees, the cost and quantity of capital required to support the risks taken, and the cost and quantity of liquidity risk in the conduct of business are also taken into consideration. The non-financial metrics capture the performance on qualitative aspects such as the compliance with risk management policies, adherence to legal, regulatory and ethical standards; customer satisfaction; and effectiveness and efficiency of supporting operations. Given the importance in both financial achievements and non-financial factors, poor performance will result in reduction of or elimination to the variable remuneration. Adverse performance in non-financial factors will override outstanding financial achievement, and thus, the employee's performance can be assessed comprehensively.

Annual review of remuneration system and policy

An annual review of the remuneration system and the Remuneration Policy of the Bank Group was conducted by the Remuneration Committee at the end of 2019. The review concludes that the remuneration system and the Remuneration Policy are consistent with the principles set out in the Remuneration Guideline.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(D) Disclosure of the Remuneration System (Continued)

Remuneration of senior management and key personnel

The aggregate quantitative information on remuneration for the Bank's senior management (including the two Executive Directors who also held the positions of Chief Executive and Alternative Chief Executive respectively) and key personnel is set out below.

- (i) The amount of remuneration for the financial years 2019 and 2018, split into fixed and variable remuneration, is set out below:

Remuneration for senior management*:

	2019 (5 beneficiaries)		2018 (5 beneficiaries)	
	Non-deferred HK\$	Deferred HK\$	Non-deferred HK\$	Deferred HK\$
Fixed remuneration				
Cash	9,615,563	–	9,173,241	–
Variable remuneration				
Cash	3,996,537	–	3,782,259	–

* Senior management comprises Chief Executive, two Alternate Chief Executives, Financial Controller and Head of Treasury

Remuneration for key personnel#:

	2019 (11 beneficiaries)		2018 (10 beneficiaries)	
	Non-deferred HK\$	Deferred HK\$	Non-deferred HK\$	Deferred HK\$
Fixed remuneration				
Cash	10,213,887	–	9,865,788	–
Variable remuneration				
Cash	2,913,281	–	2,673,552	–

Key personnel comprises (1) individual employees whose duties or activities in the course of employment involve the assumption of material risks or the taking on material exposures on behalf of the Bank Group; (2) the key personnel within risk control functions; and (3) other personnel who plays a pivotal role within the Bank

- (ii) No variable remuneration in shares or share-linked instruments was granted during the financial years 2019 and 2018.
- (iii) There was no deferred remuneration awarded, paid out and reduced through performance adjustments and there was no outstanding deferred remuneration during the financial years 2019 and 2018.
- (iv) No senior management or key personnel had been awarded new sign-on or severance payments or paid guaranteed bonuses during the financial years 2019 and 2018.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(E) Corporate Governance

The Bank is committed to high standards of corporate governance and complies with the guidelines issued by the HKMA in the SPM Module CG-1 on “Corporate Governance of Locally Incorporated Authorised Institutions”. To accomplish this, the Bank exercises corporate governance through the following Committees:

1. Board Executive Committee

Board Executive Committee consists of Executive and Non-Executive Directors and is responsible for the management of the businesses of the Bank in all aspects and the implementation of strategic business plans and policies approved and formulated by the Board. The minutes of Board Executive Committee meetings are tabled to the Board for noting. The present members comprise Tan Sri Dato’ Sri Dr. Teh Hong Piow (Chairman of Board Executive Committee), Tan Sri Dato’ Sri Tay Ah Lek, Dato’ Chang Kat Kiam, Mr. Tan Yoke Kong and Mr. Chong Yam Kiang.

2. Risk Management Committee

RMC is responsible for overseeing the overall management of all risks covering market risk management, liquidity risk management, credit risk management, operational risk management and compliance risk management. It reviews and approves major risk related policies and major risk tolerance limits and reviews and assesses the adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively. It also conducts review of the compliance functions to ensure adequate resources and independence of Compliance Department. The minutes of RMC meetings are tabled to the Board for noting and further action, where appropriate. The present members comprise Mr. Lee Chin Guan (Chairman of RMC), Mr. Lai Wan, Mr. Tang Wing Chew, Mr. Quah Poh Keat and Dato’ Chang Kat Kiam.

3. Audit Committee

Audit Committee reviews internal control issues identified by Internal Audit Department, external auditors, regulatory authorities and management, and evaluates the adequacy and effectiveness of the Group’s risk management and internal control systems. It also conducts review of the internal audit functions with particular emphasis on the scope of audits, quality of internal audits and independence of Internal Audit Department. The minutes of Audit Committee meetings are tabled to the Board for noting and further action, where appropriate. The Chief Executive and Head of Internal Audit normally attend the meetings. The members of Audit Committee shall be appointed by the Board from amongst the Non-Executive Directors of the Bank and shall consist of not less than three members. The present members comprise Mr. Tang Wing Chew (Chairman of Audit Committee), Tan Sri Dato’ Sri Tay Ah Lek, Mr. Lee Chin Guan, Mr. Lai Wan and Mr. Quah Poh Keat.

4. Nomination and Remuneration Committee

Nomination and Remuneration Committee (formerly known as Nomination Committee and Remuneration Committee which were re-organised and combined as one committee with same Chairman and same members on 1 January 2020) is responsible for reviewing and recommending to the Board the overall Remuneration Policy and remuneration packages of the Executive Directors, Chief Executive, senior management and key personnel, and the Remuneration Policy applicable to all employees of the Bank Group; 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. The minutes of Nomination and Remuneration Committee meetings are tabled to the Board for noting. The members of Nomination and Remuneration Committee comprise Non-Executive Directors appointed by the Board, and the majority of them shall be Independent Non-Executive Directors, and shall consist of not less than three members. The present members comprise Mr. Lai Wan (Chairman of Nomination and Remuneration Committee), Tan Sri Dato’ Sri Tay Ah Lek, Mr. Lee Chin Guan, Mr. Tang Wing Chew and Mr. Quah Poh Keat.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(E) Corporate Governance (Continued)

5. **Bank Culture Committee**

Bank Culture Committee is established by the Board to develop and promote a sound corporate culture and behavioural standards that promote prudent risk-taking and fair treatment of customers within the Bank and its subsidiaries. The minutes of Bank Culture Committee meetings are tabled to the Board for noting. The present members comprise Mr. Lai Wan (Chairman of Bank Culture Committee), Tan Sri Dato' Sri Tay Ah Lek, Mr. Lee Chin Guan, Mr. Tang Wing Chew, Mr. Quah Poh Keat and Dato' Chang Kat Kiam.

6. **Management Committee**

Management Committee is established by the Board to ensure the effectiveness of the daily operations and that the 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. The members of the Committee comprise the Chief Executive, Alternate Chief Executive(s), Head of Treasury, Head of Branch Banking, Head of Credit, Head of Commercial Banking, Head of Hire Purchase and Leasing, Financial Controller and Assistant General Manager – China Business & Other Operations.

7. **Credit Committee**

Credit Committee is responsible for making decisions on applications for all types of credit facilities within its limits set out in the Credit Policy and in particular, monitoring the lending portfolio for managing the overall credit risk of the Bank. The members of the Committee comprise the Chief Executive, Alternate Chief Executive, Head of Branch Banking, Head of Commercial Banking, Head of Credit, Head of Credit Analysis, Credit Manager and Assistant General Manager – China Business & Other Operations.

8. **Assets and Liabilities Management Committee**

ALCO reviews and assesses the risk profile and consolidated statement of financial position structure of the Bank, sets out the objectives for the assets and liabilities management function and implements relevant risk management strategy. The Committee monitors and manages the aforesaid matters within a framework of approved policies and limits, and reports to the RMC. The members of ALCO comprise the Chief Executive, Alternate Chief Executive(s), Head of Treasury, Financial Controller and Head of Risk Management.

9. **Human Resources Committee**

Human Resources Committee assists the Board in formulating and implementing human resources policies including staff recruitment, promotion, career development, performance appraisal and remuneration package of all staff. The members of the Committee comprise the Chief Executive, Alternate Chief Executive(s) and Head of Human Resources.

10. **Information Technology Steering Committee**

Information Technology Steering Committee is responsible for establishing policies and strategies for the computerisation of the Bank, recommending to the Board on major acquisitions of computer hardware and software, and monitoring the progress of the implementation of all information technology related projects. The members of the Committee comprise the Chief Executive, Alternate Chief Executive(s), Heads of Business Units, Head of Internal Audit, two Heads of Operations, Financial Controller and Head of Information Technology.

11. **Finance Committee**

Finance Committee assists the Board in the financial planning and budgeting process of the business of the Bank and the review of the business performance, medium-term financial strategic business plan, statutory and half-year accounts. The members of the Committee comprise the Chief Executive, Alternate Chief Executive, Head of Branch Banking, Head of Credit and Financial Controller.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(E) Corporate Governance (Continued)

12. Operational Risk Management Committee

ORMC is responsible for the implementation of the operational risk management framework approved by the Board, and the development of specific policies, processes and procedures for managing operational risk in the material products, activities, processes and systems. The members of ORMC comprise the Chief Executive, Alternate Chief Executive(s), Head of Information Technology, Financial Controller, Head of Risk Management, Head of Compliance, two Heads of Operations and Assistant General Manager – China Business & Other Operations.

13. Anti-money Laundering and Counter Terrorist Financing (AML) and Compliance Committee

AML and Compliance Committee is responsible for overseeing Compliance Department to carry out compliance functions, including prevention of money laundering and terrorist financing, providing guidance on compliance related issues raised by Compliance Department or other units of the Bank and reporting material compliance related issues to the RMC, other relevant committees, senior management and Heads of relevant departments/units. The members of the Committee comprise the Chief Executive, Alternate Chief Executive(s), Financial Controller, Head of Risk Management, Head of Branch Banking and Head of Compliance.

14. Credit Risk Management Committee

CRMC is responsible for establishing the framework for identifying, measuring, monitoring and controlling credit risk of the existing and new products. The Committee reviews credit risk management policies and credit risk tolerable limits, and reports to RMC. The members of CRMC comprise the Chief Executive, Alternate Chief Executive(s), Financial Controller, Head of Treasury and Head of Risk Management.

15. Business Strategy Steering Committee

Business Strategy Steering Committee is responsible for establishing effective business strategies to meet corporate goals and objectives taking into account operating conditions in the market and formulating strategic business plans to achieve growth and return, efficiency and competitive advantage in the financial industry. The members of the Committee comprise the Chief Executive, Alternate Chief Executive(s), Financial Controller, Head of Treasury and Heads of Business Units.

16. Business Continuity Committee

Business Continuity Committee 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. The members of the Committee comprise the Chief Executive, Alternate Chief Executive(s), Head of Branch Banking, Head of Information Technology, Head of Credit, Head of Human Resources, two Heads of Operations, Head of General Affairs, Financial Controller and Assistant General Manager – China Business & Other Operations.