大眾金融控股有限公司*

**PUBLIC FINANCIAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 626; Website: www.publicfinancial.com.hk)**

# ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The Board of Directors (the "Board") of Public Financial Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 with comparative figures as follows:

## CONSOLIDATED INCOME STATEMENT

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2016** | 2015 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Interest income | *8* | **1,667,695** | 1,691,906 |
| Interest expense | *8* | **(328,863)** | (356,220) |
| **NET INTEREST INCOME** | | **1,338,832** | 1,335,686 |
| Other operating income | *9* | **205,785** | 225,654 |
| **OPERATING INCOME** | | **1,544,617** | 1,561,340 |
| Operating expenses | *10* | **(798,761)** | (800,484) |
| Changes in fair value of investment properties | | **5,826** | 10,671 |
| **OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES** | | **751,682** | 771,527 |
| Impairment allowances for loans and advances and receivables | *11* | **(255,737)** | (265,417) |
| **OPERATING PROFIT AFTER IMPAIRMENT ALLOWANCES** | | **495,945** | 506,110 |
| Share of (loss)/profit of a joint venture | | **(286)** | 199 |
| **PROFIT BEFORE TAX** | | **495,659** | 506,309 |
| Tax | *12* | **(89,098)** | (83,354) |
| **PROFIT FOR THE YEAR** | | **406,561** | 422,955 |

* *For identification purpose only*

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2016** | 2015 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| **ATTRIBUTABLE TO:** | | | |
| Owners of the Company | | **406,561** | 422,955 |
| **EARNINGS PER SHARE (HK$)** | *14* | | |
| Basic | | **0.370** | 0.385 |
| Diluted | | **0.370** | 0.385 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* |
| **PROFIT FOR THE YEAR** | **406,561** | 422,955 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR** | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | |
| Exchange loss on translating foreign operations, net of tax | **(52,182)** | (25,971) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **354,379** | 396,984 |
| **ATTRIBUTABLE TO:** | | |
| Owners of the Company | **354,379** | 396,984 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | **31 December 2016** *HK$'000* | 31 December 2015 *HK$'000* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and short term placements | | **4,256,779** | 3,928,212 |
| Placements with banks and financial institutions maturing after one month but not more than twelve months | | **2,222,825** | 1,018,133 |
| Derivative financial instruments | | **412** | 3,864 |
| Loans and advances and receivables | *15* | **29,053,368** | 29,587,136 |
| Available-for-sale financial assets | | **6,804** | 6,804 |
| Held-to-maturity investments | *16* | **5,693,861** | 5,342,872 |
| Investment properties | | **314,398** | 267,384 |
| Property and equipment | | **128,083** | 108,428 |
| Land held under finance leases | | **642,260** | 643,223 |
| Interest in a joint venture | | **1,606** | 1,892 |
| Deferred tax assets | | **28,496** | 25,986 |
| Tax recoverable | | **10,241** | – |
| Goodwill | *17* | **2,774,403** | 2,774,403 |
| Intangible assets | | **718** | 718 |
| Other assets | | **98,281** | 112,007 |
| **TOTAL ASSETS** | | **45,232,535** | 43,821,062 |
| **EQUITY AND LIABILITIES** | | | |
| **LIABILITIES** | | | |
| Deposits and balances of banks and other financial institutions at amortised cost | | **929,392** | 984,093 |
| Derivative financial instruments | | **23,157** | 588 |
| Customer deposits at amortised cost | | **33,721,280** | 33,031,821 |
| Certificates of deposit issued at amortised cost | | **1,072,778** | 499,977 |
| Dividends payable | | **142,729** | 142,729 |
| Unsecured bank loans at amortised cost | | **1,606,143** | 1,642,400 |
| Current tax payable | | **12,974** | 22,207 |
| Deferred tax liabilities | | **31,719** | 26,433 |
| Other liabilities | | **413,058** | 348,263 |
| **TOTAL LIABILITIES** | | **37,953,230** | 36,698,511 |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | | |
| Issued capital | | **109,792** | 109,792 |
| Reserves | *18* | **7,169,513** | 7,012,759 |
| **TOTAL EQUITY** | | **7,279,305** | 7,122,551 |
| **TOTAL EQUITY AND LIABILITIES** | | **45,232,535** | 43,821,062 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* |
| **TOTAL EQUITY** | | |
| Balance at the beginning of the year | **7,122,551** | 6,923,192 |
| Profit for the year | **406,561** | 422,955 |
| Other comprehensive income in translation reserve | **(52,182)** | (25,971) |
| Total comprehensive income for the year | **354,379** | 396,984 |
| Dividends declared on shares | **(197,625)** | (197,625) |
| Balance at the end of the year | **7,279,305** | 7,122,551 |

# NOTES TO FINANCIAL STATEMENTS

## 1. STATUTORY FINANCIAL STATEMENTS

The financial information set out in this announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2016. Certain financial information in this announcement is extracted from the statutory financial statements for the year ended 31 December 2016, which will be available in the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company in around mid-February 2017.

## 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 disclosure requirements of the Companies Ordinance. They have complied with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). They also contain certain disclosure information required under the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority ("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.

## 3. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2016.

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

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

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

(ii) rights arising from other contractual arrangements; and

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

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

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

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

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

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

## 4. BASIS OF CAPITAL DISCLOSURES

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

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 of the Group is based on the ratio of the aggregate of risk-weighted exposures to the aggregate of capital bases of the Company, Public Bank (Hong Kong) and Public Finance for regulatory reporting purposes.

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

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 Common Equity Tier 1 ("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 new capital conservation buffer ("CCB") ratio of 2.5%. Furthermore, the leverage ratio that forms part of Basel III implementation is under parallel run until January 2017 and relevant information has been submitted by Public Bank (Hong Kong) and Public Finance for regulatory monitoring since 2014. Additional capital requirements, including a new countercyclical capital buffer ("CCyB") ratio ranging from 0% to 2.5%, have been implemented since 1 January 2016. The CCyB ratio requirement for 2016 and 2017 is 0.625% and 1.25%, 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 2016. The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

- Amendments to HKFRS 10 and HKAS 28 (2011) — *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) — *Investment Entities: Applying the Consolidation Exception*
- Amendments to HKFRS 11 — *Accounting for Acquisitions of Interests in Joint Operations*
- HKFRS 14 — *Regulatory Deferral Accounts*
- Amendments to HKAS 1 — *Disclosure Initiative*
- Amendments to HKAS 16 and HKAS 38 — *Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to HKAS 16 and HKAS 41 — *Agriculture: Bearer Plants*
- Amendments to HKAS 27 (2011) — *Equity Method in Separate Financial Statements*
- Annual Improvements to 2012-2014 Cycle — Amendments to a number of HKFRSs

Except for the amendments to HKFRS 10 and HKAS 28 (2011), amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and amendments included in the Annual Improvements 2012-2014 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the income statement and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the income statement. These amendments have had no significant impact on the Group's financial statements.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its assets.

**Issued but not yet effective HKFRSs**

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

- Amendments to HKFRS 2 — *Classification and Measurement of Share-based Payment Transactions*[2]
- Amendments to HKFRS 4 — *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
- HKFRS 9 — *Financial Instruments*[2]
- HKFRS 15 — *Revenue from Contracts with Customers*[2]
- Amendments to HKFRS 15 — *Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
- HKFRS 16 — *Leases*[3]
- Amendments to HKAS 7 — *Disclosure Initiative*[1]
- Amendments to HKAS 12 — *Recognition of Deferred Tax Assets for Unrealised Losses*[1]

[1] Effective for annual periods beginning on or after 1 January 2017
[2] Effective for annual periods beginning on or after 1 January 2018
[3] Effective for annual periods beginning on or after 1 January 2019

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

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implement issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 replaces 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 recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments.

Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

## 6. SIGNIFICANT ACCOUNTING ESTIMATES

### 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, and held-to-maturity investments***

The Group reviews its portfolios of loans and advances and receivables, and held-to-maturity investments to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the discounted estimated future cash flows from a portfolio of loans and advances and receivables, and held-to-maturity investments before the decrease can be identified with an individual loan or a held-to-maturity investment in those portfolios. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

For loans and advances and receivables for which no individual impairment is observed, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the loan portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

***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 cash-generating units ("CGUs") to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2016 and 2015 was HK$2,774,403,000, of which HK$832,321,000 was attributed to Public Bank (Hong Kong) and HK$1,942,082,000 was attributed to Public Finance. Further details are set out in note 17 to the financial statements.

## 7. SEGMENT INFORMATION

### Operating segment information

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

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

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

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

The Group's inter-segment transactions during the year were mainly related to dealers' commission from referrals of taxi financing loans, and these transactions were entered into on similar terms and conditions as those contracted with third parties at the dates of the transactions.

The following table discloses the revenue and profit information for operating segments for the years ended 31 December 2016 and 2015.

| | **Retail and commercial banking businesses** | | **Wealth management services, stockbroking and securities management** | | **Other businesses** | | **Eliminated on consolidation** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Segment revenue** | | | | | | | | | | |
| External: | | | | | | | | | | |
| Net interest income/(expense) | **1,338,861** | 1,335,681 | **(29)** | 5 | **–** | – | **–** | – | **1,338,832** | 1,335,686 |
| Other operating income: | | | | | | | | | | |
| Fees and commission income | **146,012** | 144,950 | **29,476** | 47,702 | **428** | 646 | **–** | – | **175,916** | 193,298 |
| Others | **11,475** | 14,728 | **(10)** | (75) | **18,404** | 17,703 | **–** | – | **29,869** | 32,356 |
| Inter-segment transactions: | | | | | | | | | | |
| Fees and commission income | **–** | – | **–** | – | **11** | 45 | **(11)** | (45) | **–** | – |
| Operating income | **1,496,348** | 1,495,359 | **29,437** | 47,632 | **18,843** | 18,394 | **(11)** | (45) | **1,544,617** | 1,561,340 |
| Operating profit after impairment allowance | **474,999** | 470,835 | **7,714** | 18,447 | **13,232** | 16,828 | **–** | – | **495,945** | 506,110 |
| Share of (loss)/profit of a joint venture | | | | | | | | | **(286)** | 199 |
| **Profit before tax** | | | | | | | | | **495,659** | 506,309 |
| Tax | | | | | | | | | **(89,098)** | (83,354) |
| **Profit for the year** | | | | | | | | | **406,561** | 422,955 |
| **Other segment information** | | | | | | | | | | |
| Depreciation of property and equipment and land held under finance leases | **(28,537)** | (27,004) | **–** | – | **–** | – | **–** | – | **(28,537)** | (27,004) |
| Changes in fair value of investment properties | **–** | – | **–** | – | **5,826** | 10,671 | **–** | – | **5,826** | 10,671 |
| Impairment allowances for loans and advances and receivables | **(255,737)** | (265,417) | **–** | – | **–** | – | **–** | – | **(255,737)** | (265,417) |
| Net losses on disposal of property and equipment | **(64)** | (31) | **–** | – | **–** | – | **–** | – | **(64)** | (31) |

The following table discloses certain assets and liabilities information regarding operating segments as at 31 December 2016 and 2015.

| | Retail and commercial banking businesses | | Wealth management services, stockbroking and securities management | | Other businesses | | Eliminated on consolidation | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Segment assets other than intangible assets and goodwill | **41,773,603** | 40,423,442 | **327,618** | 324,052 | **315,850** | 270,569 | **–** | – | **42,417,071** | 41,018,063 |
| Intangible assets | **–** | – | **718** | 718 | **–** | – | **–** | – | **718** | 718 |
| Goodwill | **2,774,403** | 2,774,403 | **–** | – | **–** | – | **–** | – | **2,774,403** | 2,774,403 |
| Segment assets | **44,548,006** | 43,197,845 | **328,336** | 324,770 | **315,850** | 270,569 | **–** | – | **45,192,192** | 43,793,184 |
| Unallocated assets: | | | | | | | | | | |
| Interest in a joint venture | | | | | | | | | **1,606** | 1,892 |
| Deferred tax assets and tax recoverable | | | | | | | | | **38,737** | 25,986 |
| **Total assets** | | | | | | | | | **45,232,535** | 43,821,062 |
| Segment liabilities | **37,637,035** | 36,380,740 | **120,472** | 118,515 | **8,301** | 7,887 | **–** | – | **37,765,808** | 36,507,142 |
| Unallocated liabilities: | | | | | | | | | | |
| Deferred tax liabilities and tax payable | | | | | | | | | **44,693** | 48,640 |
| Dividends payable | | | | | | | | | **142,729** | 142,729 |
| **Total liabilities** | | | | | | | | | **37,953,230** | 36,698,511 |
| **Other segment information** | | | | | | | | | | |
| Additions to non-current assets – capital expenditure | **88,482** | 17,422 | **–** | – | **–** | – | **–** | – | **88,482** | 17,422 |

## 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 2016 and 2015.

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Segment revenue from external customers: | | |
| Hong Kong | **1,456,466** | 1,483,324 |
| Mainland China | **88,151** | 78,016 |
| | **1,544,617** | 1,561,340 |

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

The following table discloses the non-current asset information for geographical segments as at 31 December 2016 and 2015.

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Non-current assets: | | |
| Hong Kong | **3,843,400** | 3,778,123 |
| Mainland China | **18,068** | 17,925 |
| | **3,861,468** | 3,796,048 |

Non-current assets consist of investment properties, property and equipment, land held under finance leases, interest in a joint venture, goodwill and intangible assets.

**Operating income or revenue from major customers**

Operating income or revenue from transactions with each external customer, including a group of entities which are known to be under common control with that customer, amounts to less than 10% (2015: less than 10%) of the Group's total operating income or revenue.

## 8. INTEREST INCOME AND EXPENSE

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest income from: | | |
| Loans and advances and receivables | **1,541,307** | 1,558,023 |
| Short term placements and placements with banks | **66,679** | 67,495 |
| Held-to-maturity investments | **59,709** | 66,388 |
| | **1,667,695** | 1,691,906 |
| Interest expense on: | | |
| Deposits from banks and financial institutions | **20,906** | 12,395 |
| Deposits from customers | **282,100** | 319,179 |
| Bank loans | **25,857** | 24,646 |
| | **328,863** | 356,220 |

Interest income and interest expense for the year ended 31 December 2016, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss, amounted to HK$1,667,695,000 and HK$328,863,000 (2015: HK$1,691,906,000 and HK$356,220,000) respectively. Interest income on the impaired loans and advances for the year ended 31 December 2016 amounted to HK$6,811,000 (2015: HK$4,999,000).

## 9. OTHER OPERATING INCOME

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Fees and commission income: | | |
| Retail and commercial banking | **147,861** | 147,141 |
| Wealth management services, stockbroking and securities management | **29,476** | 47,702 |
| | **177,337** | 194,843 |
| Less: Fees and commission expenses | **(1,421)** | (1,545) |
| Net fees and commission income | **175,916** | 193,298 |
| Gross rental income | **18,347** | 17,262 |
| Less: Direct operating expenses | **(111)** | (83) |
| Net rental income | **18,236** | 17,179 |
| Gains less losses arising from dealing in foreign currencies | **31,664** | 7,935 |
| Net (losses)/gains on derivative financial instruments | **(22,745)** | 3,276 |
| | **8,919** | 11,211 |
| Net losses on disposal of property and equipment | **(64)** | (31) |
| Dividend income from listed investments | **78** | 67 |
| Dividend income from unlisted investments | **700** | 800 |
| Others | **2,000** | 3,130 |
| | **205,785** | 225,654 |

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

There were no net gains or losses arising from available-for-sale financial assets, held-to-maturity investments, loans and advances and receivables, financial liabilities measured at amortised cost and financial assets and liabilities designated at fair value through profit or loss for the years ended 31 December 2016 and 2015.

All fees and commission income and expenses are related to financial assets or financial liabilities which are not designated at fair value through profit or loss. No fees and commission income and expenses are related to trust and other fiduciary activities.

## 10. OPERATING EXPENSES

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Staff costs: | | |
| Salaries and other staff costs | **471,361** | 475,213 |
| Pension contributions | **21,635** | 22,417 |
| Less: Forfeited contributions | **(44)** | (38) |
| Net contribution to retirement benefit schemes | **21,591** | 22,379 |
| | **492,952** | 497,592 |
| Other operating expenses: | | |
| Operating lease rentals on leasehold buildings | **66,946** | 65,379 |
| Depreciation of property and equipment and land held under finance leases | **28,537** | 27,004 |
| Auditor's remuneration | **3,909** | 3,919 |
| Administrative and general expenses | **73,238** | 68,377 |
| Others | **133,179** | 138,213 |
| Operating expenses before changes in fair value of investment properties | **798,761** | 800,484 |

As at 31 December 2016 and 2015, 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 2016 and 2015 arose in respect of staff who left the schemes during the years.

## 11. IMPAIRMENT ALLOWANCES

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Net charge for/(write-back of) impairment losses and allowances: | | |
| – loans and advances | **255,870** | 263,803 |
| – trade bills, accrued interest and receivables | **(133)** | 1,614 |
| | **255,737** | 265,417 |
| Net charge for/(write-back of) impairment losses and allowances: | | |
| – individually assessed | **259,099** | 268,652 |
| – collectively assessed | **(3,362)** | (3,235) |
| | **255,737** | 265,417 |
| Of which: | | |
| – new impairment losses and allowances (including any amount directly written off during the year) | **409,006** | 424,110 |
| – releases and recoveries | **(153,269)** | (158,693) |
| Net charge to the consolidated income statement | **255,737** | 265,417 |

There were no impairment allowances for financial assets other than loans and advances and receivables for the years ended 31 December 2016 and 2015.

## 12. TAX

| | **2016** *HK$'000* | 2015 *HK$'000* |
|---|---|---|
| Current tax charge: | | |
| Hong Kong | **72,466** | 75,815 |
| Overseas | **13,856** | 11,082 |
| Over-provision in prior years | **–** | (5,000) |
| Deferred tax charge, net | **2,776** | 1,457 |
| | **89,098** | 83,354 |

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the jurisdictions in which the Company, its subsidiaries and a joint venture 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:

| | **2016** | | | | | |
|---|---|---|---|---|---|---|
| | **Hong Kong** | | **Mainland China** | | **Total** | |
| | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* |
| Profit before tax | **445,489** | | **50,170** | | **495,659** | |
| Tax at the applicable tax rate | **73,506** | **16.5** | **12,542** | **25.0** | **86,048** | **17.4** |
| Estimated tax losses from previous periods utilised | **–** | **–** | **–** | **–** | **–** | **–** |
| Estimated tax losses not recognised | **3** | **–** | **–** | **–** | **3** | **–** |
| Estimated tax effect of net expenses/(income) that are not deductible/(taxable) | **3,048** | **0.7** | **(1)** | **–** | **3,047** | **0.6** |
| Adjustments in respect of current tax of previous periods | **–** | **–** | **–** | **–** | **–** | **–** |
| Tax charge at the Group's effective rate | **76,557** | **17.2** | **12,541** | **25.0** | **89,098** | **18.0** |

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Hong Kong | | Mainland China | | Total | |
| | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* |
| Profit before tax | 459,212 | | 47,097 | | 506,309 | |
| Tax at the applicable tax rate | 75,770 | 16.5 | 11,774 | 25.0 | 87,544 | 17.3 |
| Estimated tax losses from previous periods utilised | (189) | – | – | – | (189) | – |
| Estimated tax effect of net expenses/(income) that are not deductible/(taxable) | 1,378 | 0.3 | (379) | (0.8) | 999 | 0.2 |
| Adjustments in respect of current tax of previous periods | (5,000) | (1.1) | – | – | (5,000) | (1.0) |
| Tax charge at the Group's effective rate | 71,959 | 15.7 | 11,395 | 24.2 | 83,354 | 16.5 |

## 13. DIVIDENDS

### (a) Dividends attributable during the year

| | **2016** *HK$ per ordinary share* | 2015 *HK$ per ordinary share* | **2016** *HK$'000* | 2015 *HK$'000* |
|---|---|---|---|---|
| First interim dividend declared and paid | **0.05** | 0.05 | **54,896** | 54,896 |
| Second interim dividend declared | **0.13** | 0.13 | **142,729** | 142,729 |
| | **0.18** | 0.18 | **197,625** | 197,625 |

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

| | **2016** *HK$ per ordinary share* | 2015 *HK$ per ordinary share* | **2016** *HK$'000* | 2015 *HK$'000* |
|---|---|---|---|---|
| Second interim dividend in respect of the previous year | **0.13** | 0.11 | **142,729** | 120,771 |

## 14. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit for the year of HK$406,561,000 (2015: HK$422,955,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2015: 1,097,917,618) during the year.

**(b) Diluted earnings per share**

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2016. All the share options expired on 10 June 2015. The share options outstanding during the year ended 31 December 2015 had no dilutive effect on the basic earnings per share for that year. The calculation of diluted earnings per share for the year ended 31 December 2016 was based on the profit for the year of HK$406,561,000 (2015: HK$422,955,000) and on the weighted average number of ordinary shares of 1,097,917,618 (2015: 1,097,917,618), being the weighted average number of ordinary shares in issue of 1,097,917,618 (2015: 1,097,917,618) during the year as used in the basic earnings per share calculation.

## 15. LOANS AND ADVANCES AND RECEIVABLES

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loans and advances to customers | **29,027,711** | 29,535,457 |
| Trade bills | **53,012** | 64,552 |
| Loans and advances, and trade bills | **29,080,723** | 29,600,009 |
| Accrued interest | **82,155** | 80,779 |
| | **29,162,878** | 29,680,788 |
| Other receivables | **24,119** | 28,621 |
| Gross loans and advances and receivables | **29,186,997** | 29,709,409 |
| Less: Impairment allowances for loans and advances and receivables | | |
| – individually assessed | **(121,272)** | (106,509) |
| – collectively assessed | **(12,357)** | (15,764) |
| | **(133,629)** | (122,273) |
| Loans and advances and receivables | **29,053,368** | 29,587,136 |

Over 90% (2015: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (2015: 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.

Loans and advances and receivables are summarised as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired loans and advances and receivables | **28,384,836** | 29,127,545 |
| Past due but not impaired loans and advances and receivables | **542,779** | 392,599 |
| Individually impaired loans and advances | **253,652** | 185,253 |
| Individually impaired receivables | **5,730** | 4,012 |
| Gross loans and advances and receivables | **29,186,997** | 29,709,409 |

About 67% (2015: 66%) 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.

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

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Gross amount** | **Percentage of total loans and advances** | Gross amount | Percentage of total loans and advances |
| | ***HK$'000*** | ***%*** | *HK$'000* | *%* |
| Loans and advances overdue for: | | | | |
| Six months or less but over three months | **82,655** | **0.29** | 85,958 | 0.29 |
| One year or less but over six months | **44,716** | **0.15** | 15,568 | 0.05 |
| Over one year | **23,696** | **0.08** | 24,767 | 0.09 |
| Loans and advances overdue for more than three months | **151,067** | **0.52** | 126,293 | 0.43 |
| Rescheduled loans and advances overdue for three months or less | **62,449** | **0.21** | 35,162 | 0.12 |
| Impaired loans and advances overdue for three months or less | **40,136** | **0.14** | 23,798 | 0.08 |
| Total overdue and impaired loans and advances | **253,652** | **0.87** | 185,253 | 0.63 |

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

| | **2016** *HK$'000* | 2015 *HK$'000* |
|---|---|---|
| Trade bills, accrued interest and other receivables overdue for: | | |
| Six months or less but over three months | **287** | 288 |
| One year or less but over six months | **1,781** | 384 |
| Over one year | **3,169** | 3,181 |
| Trade bills, accrued interest and other receivables overdue for more than three months | **5,237** | 3,853 |
| Impaired trade bills, accrued interest and other receivables overdue for three months or less | **493** | 159 |
| Total overdue and impaired trade bills, accrued interest and other receivables | **5,730** | 4,012 |

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.

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

| | **2016** | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Hong Kong** *HK$'000* | **Mainland China** *HK$'000* | **Total** *HK$'000* | Hong Kong *HK$'000* | Mainland China *HK$'000* | Total *HK$'000* |
| **(i) Analysis of overdue loans and advances and receivables** | | | | | | |
| Loans and advances and receivables overdue for more than three months | **131,717** | **24,587** | **156,304** | 117,398 | 12,748 | 130,146 |
| Individual impairment allowances | **61,208** | **22,429** | **83,637** | 73,889 | 11,457 | 85,346 |
| Current market value and fair value of collateral | | | **104,214** | | | 69,165 |
| **(ii) Analysis of impaired loans and advances and receivables** | | | | | | |
| Impaired loans and advances and receivables | **234,795** | **24,587** | **259,382** | 176,409 | 12,856 | 189,265 |
| Individual impairment allowances | **98,843** | **22,429** | **121,272** | 94,944 | 11,565 | 106,509 |
| Current market value and fair value of collateral | | | **180,108** | | | 128,237 |

Over 90% (2015: over 90%) of the Group's gross loans and advances and receivables were derived from operations carried out in Hong Kong. Accordingly, no geographical segment information of gross loans and advances and receivables is presented herein.

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

| | **2016** *HK$'000* | 2015 *HK$'000* |
|---|---|---|
| Current market value and fair value of collateral held against the covered portion of overdue loans and advances | **104,214** | 69,165 |
| Covered portion of overdue loans and advances | **57,424** | 24,324 |
| Uncovered portion of overdue loans and advances | **93,643** | 101,969 |

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 2016, the total value of repossessed assets of the Group amounted to HK$7,210,000 (2015: Nil).

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **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 | **526,139** | **1.81** | 391,302 | 1.32 |
| Trade bills, accrued interest and other receivables overdue for three months or less | **16,640** | | 1,297 | |

## (f) Movements in impairment losses and allowances on loans and advances and receivables

| | 2016 | | |
|---|---|---|---|
| | **Individual impairment allowances** *HK$'000* | **Collective impairment allowances** *HK$'000* | **Total** *HK$'000* |
| At 1 January 2016 | **106,509** | **15,764** | **122,273** |
| Amounts written off | **(382,302)** | **–** | **(382,302)** |
| Impairment losses and allowances charged to the consolidated income statement | **408,852** | **154** | **409,006** |
| Impairment losses and allowances released to the consolidated income statement | **(149,753)** | **(3,516)** | **(153,269)** |
| Net charge/(release) of impairment losses and allowances | **259,099** | **(3,362)** | **255,737** |
| Loans and advances and receivables recovered | **138,630** | **–** | **138,630** |
| Exchange difference | **(664)** | **(45)** | **(709)** |
| At 31 December 2016 | **121,272** | **12,357** | **133,629** |
| Deducted from: | | | |
| Loans and advances | **119,157** | **12,072** | **131,229** |
| Trade bills, accrued interest and other receivables | **2,115** | **285** | **2,400** |
| | **121,272** | **12,357** | **133,629** |

| | 2015 Individual impairment allowances HK$'000 | 2015 Collective impairment allowances HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2015 | 86,174 | 19,015 | 105,189 |
| Amounts written off | (396,338) | – | (396,338) |
| Impairment losses and allowances charged to the consolidated income statement | 423,799 | 311 | 424,110 |
| Impairment losses and allowances released to the consolidated income statement | (155,147) | (3,546) | (158,693) |
| Net charge/(release) of impairment losses and allowances | 268,652 | (3,235) | 265,417 |
| Loans and advances and receivables recovered | 148,620 | – | 148,620 |
| Exchange difference | (599) | (16) | (615) |
| At 31 December 2015 | 106,509 | 15,764 | 122,273 |
| Deducted from: | | | |
| Loans and advances | 104,202 | 15,538 | 119,740 |
| Trade bills, accrued interest and other receivables | 2,307 | 226 | 2,533 |
| | 106,509 | 15,764 | 122,273 |

**(g) Finance lease receivables**

Included in loans and advances and receivables were receivables in respect of assets leased under finance leases as set out below:

| | **2016** Minimum lease payments | 2015 | **2016** Present value of minimum lease payments | 2015 |
|---|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Amounts receivable under finance leases: | | | | |
| Within one year | **364,112** | 356,016 | **270,685** | 270,140 |
| In the second to fifth years, inclusive | **1,064,155** | 1,022,923 | **759,367** | 750,335 |
| Over five years | **3,717,836** | 3,425,481 | **3,088,024** | 2,862,167 |
| | **5,146,103** | 4,804,420 | **4,118,076** | 3,882,642 |
| Less: Unearned finance income | **(1,028,027)** | (921,778) | | |
| Present value of minimum lease payments receivable | **4,118,076** | 3,882,642 | | |

The Group has entered into finance lease arrangements with customers in respect of motor vehicles and equipment. The terms of the finance leases entered into range from 1 to 25 years.

## 16. HELD-TO-MATURITY INVESTMENTS

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Certificates of deposit held | **2,530,788** | 2,816,789 |
| Treasury bills and government bonds (including Exchange Fund Bills) | **1,682,974** | 1,767,836 |
| Other debt securities | **1,480,099** | 758,247 |
| | **5,693,861** | 5,342,872 |
| Listed or unlisted: | | |
| – Listed in Hong Kong | **1,617,360** | 1,557,815 |
| – Listed outside Hong Kong | **81,784** | 58,025 |
| – Unlisted | **3,994,717** | 3,727,032 |
| | **5,693,861** | 5,342,872 |
| Analysed by types of issuers: | | |
| – Central government | **1,682,974** | 1,767,836 |
| – Banks and other financial institutions | **4,010,887** | 3,575,036 |
| | **5,693,861** | 5,342,872 |

There were no impairment allowances made against held-to-maturity investments as at 31 December 2016 and 2015. There were no movements in impairment allowances for the years ended 31 December 2016 and 2015.

There were neither impaired nor overdue held-to-maturity investments as at 31 December 2016 and 2015.

All exposures attributed to the held-to-maturity investments were rated with a grading of A3 or above based on the credit rating of an external credit agency, Moody's as at 31 December 2016 and 2015.

## 17. GOODWILL

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost and net carrying amount: | | |
| At the beginning and the end of the year | **2,774,403** | 2,774,403 |

**Impairment test of goodwill**

There are two CGUs, namely Public Bank (Hong Kong) and Public Finance, which represent the main operating entities within the business segment "Retail and commercial banking businesses" identified by the Group. Goodwill acquired through business combinations is allocated on a pro-rata basis to the two CGUs based on the ratio of the recoverable amount of a CGU to those of the other CGU at the date of acquisition. The recoverable amounts of the CGUs at each subsequent reporting date are determined based on the value-in-use using the present value of cash flows taking into account the expected operating synergy and profitability and growth of businesses arising from the acquisition of Public Bank (Hong Kong) and its subsidiaries. The cash flow projections are based on financial budgets approved by management covering a 10-year period and assumed growth rates are used to extrapolate the cash flows in the following 40 years. The financial budgets are prepared based on a 10-year business plan which is appropriate after considering the sustainability of business growth, stability of core business developments, long term economic cycle and achievement of business targets extrapolated from a track record of financial results. All cash flows are discounted at discount rates of 3% and 6% under baseline and stressed scenarios, respectively. Management's financial model assumes an average growth rate of 5% to 6% per annum from the eleventh to fiftieth years taking into account long term gross domestic product growth and other relevant economic factors. The discount rates used are based on the rates which reflect specific risks relating to the CGUs.

No impairment loss has been recognised in respect of goodwill for the years ended 31 December 2016 and 2015 as its value-in-use exceeds its carrying amount.

## 18. RESERVES

| | *Note* | Share premium account *HK$'000* | Capital redemption reserve *HK$'000* | Contributed surplus *HK$'000* | Employee share-based compensation reserve (Note 1) *HK$'000* | Regulatory reserve (Note 2) *HK$'000* | Retained profits *HK$'000* | Translation reserve *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2015 | | 4,013,296 | 829 | 96,116 | 45,765 | 438,936 | 2,150,305 | 68,153 | 6,813,400 |
| Profit for the year | | – | – | – | – | – | 422,955 | – | 422,955 |
| Other comprehensive income | | – | – | – | – | – | – | (25,971) | (25,971) |
| Transfer of employee share-based compensation reserve upon the expiry of share options | | – | – | – | (45,765) | – | 45,765 | – | – |
| Transfer from retained profits | | – | – | – | – | 16,507 | (16,507) | – | – |
| Dividends for 2015 | *13* | – | – | – | – | – | (197,625) | – | (197,625) |
| At 31 December 2015 and 1 January 2016 | | **4,013,296** | **829** | **96,116** | **–** | **455,443** | **2,404,893** | **42,182** | **7,012,759** |
| Profit for the year | | **–** | **–** | **–** | **–** | **–** | **406,561** | **–** | **406,561** |
| Other comprehensive income | | **–** | **–** | **–** | **–** | **–** | **–** | **(52,182)** | **(52,182)** |
| Transfer to retained profits | | **–** | **–** | **–** | **–** | **(16,705)** | **16,705** | **–** | **–** |
| Dividends for 2016 | *13* | **–** | **–** | **–** | **–** | **–** | **(197,625)** | **–** | **(197,625)** |
| At 31 December 2016 | | **4,013,296** | **829** | **96,116** | **–** | **438,738** | **2,630,534** | **(10,000)** | **7,169,513** |

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation in September 1991 over the nominal value of the Company's shares issued in exchange therefor.

Deducted from the contributed surplus of the Group as at 31 December 2016 was positive goodwill of HK$98,406,000 (2015: HK$98,406,000), which arose from the acquisition of certain subsidiaries in prior years.

Notes:

1. The employee share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised. The amount was transferred to the retained profits when the related options expired and lapsed in 2015.

2. 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 guideline.

## 19. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

As at 31 December 2016 and 2015, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **8,969** | 9,380 |
| In the second to fifth years, inclusive | **5,341** | 3,692 |
| | **14,310** | 13,072 |

### (b) As lessee

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

As at 31 December 2016 and 2015, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **58,432** | 52,277 |
| In the second to fifth years, inclusive | **45,832** | 41,878 |
| Over five years | **872** | 382 |
| | **105,136** | 94,537 |

## 20. 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:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Contractual amount *HK$'000* | Credit equivalent amount *HK$'000* | Credit risk-weighted amount *HK$'000* | Positive fair value-assets *HK$'000* | Negative fair value-liabilities *HK$'000* |
| Direct credit substitutes | 723,281 | 723,281 | 197,661 | – | – |
| Transaction-related contingencies | 15,235 | 7,618 | 2,569 | – | – |
| Trade-related contingencies | 101,475 | 20,294 | 5,687 | – | – |
| Forward forward deposits placed | – | – | – | – | – |
| Forward asset purchases | – | – | – | – | – |
| | 839,991 | 751,193 | 205,917 | – | – |
| Derivatives held for trading: | | | | | |
| Foreign exchange rate contracts | 1,214,516 | 12,557 | 2,529 | 412 | 23,157 |
| 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 | 3,789,134 | – | – | – | – |
| | 5,843,641 | 763,750 | 208,446 | 412 | 23,157 |

| | 2016 Contractual amount *HK$'000* |
|---|---|
| Capital commitments contracted for, but not provided in the consolidated statement of financial position | 11,643 |

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Contractual amount | Credit equivalent amount | Credit risk-weighted amount | Positive fair value-assets | Negative fair value-liabilities |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Direct credit substitutes | 171,846 | 171,846 | 89,632 | – | – |
| Transaction-related contingencies | 14,363 | 7,181 | 1,649 | – | – |
| Trade-related contingencies | 45,298 | 9,060 | 6,660 | – | – |
| Forward forward deposits placed | – | – | – | – | – |
| Forward asset purchases | 1,513 | 1,513 | 303 | – | – |
| | 233,020 | 189,600 | 98,244 | – | – |
| Derivatives held for trading: | | | | | |
| Foreign exchange rate contracts | 2,344,121 | 27,040 | 4,894 | 3,864 | 588 |
| Other commitments with an original maturity of: | | | | | |
| More than one year | 17,333 | 8,667 | 8,667 | – | – |
| Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties | 3,876,373 | – | – | – | – |
| | 6,470,847 | 225,307 | 111,805 | 3,864 | 588 |

| | 2015 Contractual amount *HK$'000* |
|---|---|
| Capital commitments contracted for, but not provided in the consolidated statement of financial position | 17,031 |

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 2016 and 2015, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

## 21. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below shows an analysis of financial assets and financial liabilities analysed by principal according to the periods that they are expected to be recovered or settled.

| | 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Repayable on demand | Up to 1 month | Over 1 month but not more than 3 months | Over 3 months but not more than 12 months | Over 1 year but not more than 5 years | Over 5 years | Repayable within an indefinite period | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Financial assets:** | | | | | | | | |
| Cash and short term placements | 1,378,755 | 2,878,024 | – | – | – | – | – | 4,256,779 |
| Placements with banks and financial institutions maturing after one month but not more than twelve months | – | – | 1,750,984 | 471,841 | – | – | – | 2,222,825 |
| Loans and advances and receivables (gross) | 715,197 | 1,989,010 | 1,424,888 | 2,858,509 | 6,315,552 | 15,624,459 | 259,382 | 29,186,997 |
| Available-for-sale financial assets | – | – | – | – | – | – | 6,804 | 6,804 |
| Held-to-maturity investments | – | 155,009 | 1,244,144 | 3,094,868 | 1,199,840 | – | – | 5,693,861 |
| Other assets | 293 | 31,631 | 15,413 | 31,197 | – | – | 19,747 | 98,281 |
| Foreign exchange contracts (gross) | – | 824,229 | 208,616 | 181,671 | – | – | – | 1,214,516 |
| Total financial assets | 2,094,245 | 5,877,903 | 4,644,045 | 6,638,086 | 7,515,392 | 15,624,459 | 285,933 | 42,680,063 |
| **Financial liabilities:** | | | | | | | | |
| Deposits and balances of banks and other financial institutions at amortised cost | 58,788 | 597,212 | 151,152 | 122,240 | – | – | – | 929,392 |
| Customer deposits at amortised cost | 8,957,430 | 6,713,868 | 11,244,633 | 6,170,097 | 635,252 | – | – | 33,721,280 |
| Certificates of deposit issued at amortised cost | – | 529,990 | 542,788 | – | – | – | – | 1,072,778 |
| Unsecured bank loans at amortised cost | – | 414,000 | – | 100,000 | 1,092,143 | – | – | 1,606,143 |
| Other liabilities | 361 | 56,776 | 19,709 | 27,110 | 10,788 | – | 298,314 | 413,058 |
| Foreign exchange contracts (gross) | – | 841,281 | 212,083 | 183,897 | – | – | – | 1,237,261 |
| Total financial liabilities | 9,016,579 | 9,153,127 | 12,170,365 | 6,603,344 | 1,738,183 | – | 298,314 | 38,979,912 |
| Net liquidity gap | (6,922,334) | (3,275,224) | (7,526,320) | 34,742 | 5,777,209 | 15,624,459 | (12,381) | 3,700,151 |

| | 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Repayable on demand *HK$'000* | Up to 1 month *HK$'000* | Over 1 month but not more than 3 months *HK$'000* | Over 3 months but not more than 12 months *HK$'000* | Over 1 year but not more than 5 years *HK$'000* | Over 5 years *HK$'000* | Repayable within an indefinite period *HK$'000* | Total *HK$'000* |
| **Financial assets:** | | | | | | | | |
| Cash and short term placements | 1,028,166 | 2,900,046 | – | – | – | – | – | 3,928,212 |
| Placements with banks and financial institutions maturing after one month but not more than twelve months | – | – | 444,339 | 573,794 | – | – | – | 1,018,133 |
| Loans and advances and receivables (gross) | 993,656 | 1,676,926 | 1,800,867 | 3,123,903 | 6,386,847 | 15,537,945 | 189,265 | 29,709,409 |
| Available-for-sale financial assets | – | – | – | – | – | – | 6,804 | 6,804 |
| Held-to-maturity investments | – | 204,276 | 792,086 | 3,313,255 | 1,033,255 | – | – | 5,342,872 |
| Other assets | 72 | 55,780 | 6,457 | 33,707 | – | – | 15,991 | 112,007 |
| Foreign exchange contracts (gross) | – | 1,521,753 | 512,407 | 309,961 | – | – | – | 2,344,121 |
| Total financial assets | 2,021,894 | 6,358,781 | 3,556,156 | 7,354,620 | 7,420,102 | 15,537,945 | 212,060 | 42,461,558 |
| **Financial liabilities:** | | | | | | | | |
| Deposits and balances of banks and other financial institutions at amortised cost | 49,824 | 674,269 | 200,000 | 60,000 | – | – | – | 984,093 |
| Customer deposits at amortised cost | 8,151,701 | 8,947,867 | 10,517,342 | 5,396,063 | 18,848 | – | – | 33,031,821 |
| Certificates of deposit issued at amortised cost | – | – | 499,977 | – | – | – | – | 499,977 |
| Unsecured bank loans at amortised cost | – | 455,000 | – | 100,000 | 1,087,400 | – | – | 1,642,400 |
| Other liabilities | 92 | 81,588 | 22,279 | 50,389 | 2,381 | – | 191,534 | 348,263 |
| Foreign exchange contracts (gross) | – | 1,519,405 | 511,681 | 309,759 | – | – | – | 2,340,845 |
| Total financial liabilities | 8,201,617 | 11,678,129 | 11,751,279 | 5,916,211 | 1,108,629 | – | 191,534 | 38,847,399 |
| Net liquidity gap | (6,179,723) | (5,319,348) | (8,195,123) | 1,438,409 | 6,311,473 | 15,537,945 | 20,526 | 3,614,159 |

## CORPORATE GOVERNANCE

None of the Directors of the Company is aware of information that would reasonably indicate that the Company is not or was not for any part of the accounting year covered by the 2016 annual report, in compliance with the code provisions ("Code Provision(s)") in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules except for certain deviations as specified and explained below with considered reasons for such deviations. The principles as set out in the CG Code have been applied in our corporate governance structure.

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

Under Code Provision E.1.2 of the CG Code, the chairman of the board shall attend the AGM. Tan Sri Dato' Sri Dr. Teh Hong Piow, the Chairman of the Company, was absent from the 2016 AGM of the Company held in March 2016 due to other engagement. The 2016 AGM was chaired by the Co-Chairman of the Company, Mr. Lai Wan. The Chairmen of the Audit Committee, Remuneration Committee, Nomination Committee and the respective Risk Management Committees of Public Bank (Hong Kong) and Public Finance also attended the 2016 AGM to answer questions raised therein, if any.

The Board will keep on reviewing the relevant Bye-laws and propose any amendment, if necessary, to ensure compliance with the CG Code as set out in the Listing Rules.

## DIVIDENDS

The first interim dividend of HK$0.05 (2015: HK$0.05) per ordinary share was paid on 5 August 2016. The second interim dividend of HK$0.13 (2015: HK$0.13) per ordinary share was declared on 27 December 2016 and will be payable on 24 February 2017 to shareholders of the Company whose names appear on the register of members on 3 February 2017. The Directors do not recommend the payment of a final dividend for the year (2015: Nil).

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 15 March 2017 to Friday, 17 March 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 14 March 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

The operating environment for financial institutions remained challenging in Hong Kong in the year under review. Competition in the banking and financing industry intensified with financial institutions seeking greater market share in particular mortgage and other loan business with lower volume of properties transactions in the market. The weak merchandise exports, slackening of tourist spending, downturn in inbound tourist arrivals, drop of retail sales, and volatility/adjustments of property and equity prices contributed partly to the moderation of economic growth momentum and the slowdown of domestic credit demand of banking services in Hong Kong. The slowdown in economic growth in Mainland China attributed to excessive industrial production capacity and deleveraging efforts had also impacted business developments of Hong Kong enterprises with base in Mainland China.

## FINANCIAL REVIEW

### Revenue and earnings

For the year ended 31 December 2016, the Group recorded a profit after tax of HK$406.6 million, representing a decrease of HK$16.4 million or 3.9% when compared to the previous year.

The Group's basic earnings per share for 2016 was HK$0.37. The Board declared a first interim dividend of HK$0.05 per share in June 2016 and a second interim dividend of HK$0.13 per share in December 2016. The Board did not recommend the payment of a final dividend, making a total dividend for the year of HK$0.18 per share (2015: HK$0.18 per share).

For the year under review, the Group's interest income decreased by HK$24.2 million or 1.4% to HK$1.67 billion due to lower yield on consumer financing loan portfolio whilst the Group's interest expense decreased by HK$27.3 million or 7.7% to HK$328.9 million mainly due to lower funding costs of customer deposits. Consequently, the Group's net interest income increased slightly by HK$3.1 million or 0.2% to HK$1.34 billion. Total operating income of the Group decreased by HK$16.7 million or 1.1% to HK$1.54 billion mainly due to lower stockbroking fee income from the decline in volume of turnover in the stock market of Hong Kong. Gain from the changes in fair value of investment properties also decreased by HK$4.8 million to HK$5.8 million in the year under review.

Total operating expenses (before changes in fair value of investment properties) decreased by HK$1.7 million or 0.2% to HK$798.8 million, mainly due to decrease in marketing related costs.

Impairment allowances for loans and advances decreased by HK$9.7 million or 3.6% to HK$255.7 million in 2016 as compared to HK$265.4 million in the previous year.

**Loans and advances, customer deposits and total assets**

The Group's total loans and advances (including trade bills) decreased by HK$519.3 million or 1.8% to HK$29.08 billion as at 31 December 2016 from HK$29.60 billion as at 31 December 2015, partly due to early repayments of foreign currency loans of some customers based in Mainland China driven by the depreciation of Renminbi during the year under review. Customer deposits increased by HK$689.5 million or 2.1% to HK$33.72 billion as at 31 December 2016 from HK$33.03 billion as at 31 December 2015.

As at 31 December 2016, the Group's total assets stood at HK$45.23 billion, an increase of HK$1.41 billion when compared to the position as at 31 December 2015.

**Group's branch network**

With the opening of a new sub-branch in Longhua, Shenzhen in August 2016, Public Bank (Hong Kong), a subsidiary of the Company, has 32 branches in Hong Kong and 4 branches in Shenzhen in the People's Republic of China to provide a broad range of commercial and retail banking services. Public Finance, a subsidiary of Public Bank (Hong Kong), is a deposit-taking company and has a network of 42 branches in Hong Kong. Winton Financial Limited ("Winton Financial"), another operating subsidiary of the Company, which operates under a money lenders licence, has a network of 8 branches in Hong Kong to provide personal financing to its target customer segment. In total, the Group has a combined branch network of 86 branches as at 31 December 2016 to serve its customers.

**Business performance in loans and customer deposits**

***Public Bank (Hong Kong)***

During the year under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) recorded a decrease of HK$593.2 million or 2.5% to HK$23.49 billion as at 31 December 2016 from HK$24.08 billion as at 31 December 2015 due to early repayments of a few significant loans. Customer deposits (excluding intra-group's deposits) increased by HK$562.8 million or 2.0% to HK$29.15 billion as at 31 December 2016 from HK$28.59 billion as at 31 December 2015. Impaired loans to total loans ratio of Public Bank (Hong Kong) was 0.44% as at 31 December 2016.

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

***Public Finance***

Total loans and advances of Public Finance recorded a growth of HK$117.2 million or 2.2% to HK$5.36 billion as at 31 December 2016 from HK$5.25 billion as at 31 December 2015. Customer deposits increased by HK$177.7 million or 3.7% to HK$4.98 billion as at 31 December 2016 from HK$4.80 billion as at 31 December 2015. Impaired loans to total loans ratio of Public Finance was 2.31% as at 31 December 2016.

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

**Segmental information**

The Group's businesses comprise three main segments: (i) retail and commercial banking businesses, (ii) stockbroking and wealth management services, and (iii) other businesses. 96.9% of the Group's operating income and 95.8% of the profit before tax were contributed by retail and commercial banking businesses for the year under review. When compared to the previous year, the Group's operating income from retail and commercial banking businesses increased by HK$1.0 million or 0.1% to HK$1.50 billion mainly due to the increase in net interest income of the Group. Profit before tax from retail and commercial banking businesses for 2016 increased by HK$4.2 million or 0.9% to HK$475.0 million due to the increase in net interest income and decrease in impairment allowance for loans and advances in the current year.

**Contingent liabilities and commitments**

The Group has no material contingent liabilities (other than those in the normal course of its banking and finance businesses related to treasury and trade finance activities and loan commitments disclosed in the notes to the financial statements) as at the end of the year under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the year under review. There was no material funding required for capital expenditure and its commitments. The Group did not have plans for material investments or purchases of capital assets in the near term. As at 31 December 2016, there was no charge over the assets of the Group.

## OPERATIONAL REVIEW

**Funding and capital management**

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

The Group relies principally on its internally generated capital, customer deposits, deposits from financial institutions and the issuance of certificates of deposit to fund its retail consumer financing business and its retail and commercial banking business. The Group's bank borrowings in the form of term loans denominated in Hong Kong dollars ("HKD") at floating interest rates stood at HK$1.61 billion as at the end of 2016. Based on the level of bank borrowings as compared to the equity of the Group, the Group's gearing ratio stood at a healthy level of 0.22 times as at 31 December 2016. The bank borrowings have remaining average maturity period of more than one year. In the normal course of its commercial banking business, Public Bank (Hong Kong) had entered into foreign exchange and interest rate swaps and forward contracts to reduce the foreign exchange rate risk and interest rate risk exposures of the Group. Exposures to fluctuations in foreign exchange rates and interest rates were minimal. There were also no foreign currency net investments hedged by foreign currency borrowings and other hedging instruments during the year under review.

The consolidated CET1 capital ratio and total capital ratio of Public Bank (Hong Kong) Group (inclusive of Public Bank (Hong Kong) and Public Finance) stood at 16.6% and 17.7% respectively as at 31 December 2016.

**Asset quality and credit management**

The Group will continue to safeguard its capital adequacy position, manage risks cautiously and undertake prudent yet flexible business development strategies to strike a balance between business growth and prudent risk management. The Group's impaired loans to total loans ratio stood at satisfactory level of 0.87% as at 31 December 2016.

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

**Human resources management**

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

As at 31 December 2016, the Group's staff force stood at 1,393 employees. For the year ended 31 December 2016, the Group's total staff-related costs amounted to HK$493.0 million.

## PROSPECTS

The economic outlook of Hong Kong and Mainland China is anticipated to be uncertain in the year 2017 in light of the interest rate environment in the US and changes in policies under its new government. Uncertainty over near-term economic growth prospects and changing domestic and external environment of Hong Kong and Mainland China persist. The US Federal Reserve is expected to normalise its monetary policy with more frequent federal funds target interest rate hikes, which may have potential impact on consumer/investment sentiment, loan demand and risk appetites of individuals and corporates in Hong Kong and Mainland China. The economic growth momentum in Mainland China, as signaled in its recent slowdown of gross domestic product growth, is expected to continue to moderate in the near term. The recent slowdown of retail sales growth and inbound tourism and the softening of exports in Hong Kong will also take a toll on the economic growth momentum of Hong Kong which is affected by changes in external environment factors.

The potential rise in funding costs, and decline in credit demand, coupled with the increase in compliance related and system related costs in meeting the regulatory and supervisory requirements, are expected to have an impact on the earnings growth of banks and financial institutions in Hong Kong. Despite the foregoing, the Group will continue to pursue long-term business and profitability growth in line with its corporate mission and goals. The Group will continue to adopt prudent capital management and liquidity risk management to preserve adequate buffer to meet the challenges ahead.

The competitive and volatile operating environment in the banking and financing industry in Hong Kong will continue to exert pressure on the pricing of banking and financing products. The US interest rate rises are expected to cause an escalation of funding costs in HKD and US dollar deposits for banks and financial institutions in Hong Kong. Thus, net interest margin on loans and other interest-bearing assets of banks and financial institutions in Hong Kong will be under pressure in the short term and would have potential impact on the earnings of financial institutions. The Group will continue to seek loans at higher yields in anticipation of higher funding costs. The Group will continue to adopt sound and flexible marketing strategies to expand customer base and channels of services, launch attractive marketing promotions and features at reasonable costs, and optimise the utilisation of system resources to enhance service quality and efficiency of banking operations. The Group will also strive for the diversification of income streams by development of fee-based businesses in stockbroking and insurance businesses.

The Group will continue to focus on expanding its retail and commercial banking business and its consumer financing business through its branch network, offering of premium business service, and supporting of growth in loans and fee-based businesses. The Group will continue to target at selected market segments of Public Bank (Hong Kong), Public Finance and Winton Financial to grow its retail and commercial lending business and consumer financing business.

Barring unforeseen circumstances, the Group expects to register moderate growth in its banking and financing businesses and improvement in its financial performance in 2017. The Group is also committed to fostering a healthy and strong corporate culture to enhance the Group's cohesiveness with shared vision and values by every staff in the Group.

## PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

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

## REVIEW BY AUDIT COMMITTEE

The 2016 annual results have been reviewed by the Company's Audit Committee which comprises three Independent Non-Executive Directors and one Non-Executive Director.

By Order of the Board
**Tan Sri Dato' Sri Dr. Teh Hong Piow**
*Chairman*

Hong Kong, 19 January 2017

*As at the date of this announcement, the Board of the Company comprises Tan Sri Dato' Sri Dr. Teh Hong Piow, Mr. Quah Poh Keat, Dato' Chang Kat Kiam and Mr. Chong Yam Kiang as Non-Executive Directors, Mr. Tan Yoke Kong and Mr. Lee Huat Oon as Executive Directors, and Mr. Lai Wan, Mr. Lee Chin Guan and Mr. Tang Wing Chew as Independent Non-Executive Directors.*