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 2019

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 2019 with comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2019	2018
	Notes	***HK$'000***	*HK$'000*
Interest income	*8*	**1,955,887**	1,881,356
Interest expense	*8*	**(595,615)**	(478,913)
NET INTEREST INCOME		**1,360,272**	1,402,443
Other operating income	*9*	**245,119**	231,054
OPERATING INCOME		**1,605,391**	1,633,497
Operating expenses	*10*	**(885,454)**	(870,928)
Changes in fair value of investment properties		**62,560**	21,679
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		**782,497**	784,248
Credit loss expenses	*11*	**(222,118)**	(162,046)
PROFIT BEFORE TAX		**560,379**	622,202
Tax	*12*	**(94,039)**	(111,724)
PROFIT FOR THE YEAR		**466,340**	510,478

* *For identification purpose only*

	Notes	Year ended 31 December **2019** ***HK$'000***	 2018 *HK$'000*
ATTRIBUTABLE TO:			
Owners of the Company		**466,340**	510,478
EARNINGS PER SHARE (HK$)	*14*		
Basic		**0.425**	0.465
Diluted		**0.425**	0.465

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**466,340**	510,478
OTHER COMPREHENSIVE INCOME FOR THE YEAR		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations, net of tax	**(14,575)**	(46,826)
Surplus on revaluation of properties	**3,982**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**455,747**	463,652
ATTRIBUTABLE TO:		
Owners of the Company	**455,747**	463,652

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2019** ***HK$'000***	31 December 2018 *HK$'000*
ASSETS			
Cash and short term placements		**4,444,441**	3,953,773
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	*15*	**28,630,953**	29,877,579
Equity investments at fair value through other comprehensive income		**6,804**	6,804
Held-to-collect debt securities at amortised cost	*16*	**6,078,760**	6,202,949
Investment properties		**391,316**	345,715
Property and equipment		**168,169**	145,090
Land held under finance leases		**688,036**	676,073
Right-of-use assets		**128,668**	–
Deferred tax assets		**35,233**	41,338
Tax recoverable		**–**	1,222
Goodwill	*17*	**2,774,403**	2,774,403
Intangible assets		**718**	718
Other assets		**327,358**	166,343
TOTAL ASSETS		**45,222,840**	45,750,890
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**787,235**	572,712
Derivative financial instruments		**4,651**	7,275
Customer deposits at amortised cost		**33,917,425**	35,284,322
Dividends payable		**164,688**	186,646
Unsecured bank loans at amortised cost		**1,542,693**	1,444,614
Lease liabilities		**132,944**	–
Current tax payable		**63,253**	15,298
Deferred tax liabilities		**41,186**	36,350
Other liabilities		**591,379**	455,863
TOTAL LIABILITIES		**37,245,454**	38,003,080
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		**109,792**	109,792
Reserves	*18*	**7,867,594**	7,638,018
TOTAL EQUITY		**7,977,386**	7,747,810
TOTAL EQUITY AND LIABILITIES		**45,222,840**	45,750,890

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Year ended 31 December	
		2019	2018
	Notes	***HK$'000***	*HK$'000*
TOTAL EQUITY			
As at 1 January (Reported)		**7,747,810**	7,525,700
Impact of adopting HKFRS 16	*5*	**(6,587)**	–
Restated opening balance under HKFRS 16		**7,741,223**	7,525,700
Profit for the year		**466,340**	510,478
Other comprehensive income in translation reserve		**(14,575)**	(46,826)
Other comprehensive income in property revaluation reserve		**3,982**	–
Total comprehensive income for the year		**455,747**	463,652
Dividends declared on shares	*13(a)*	**(219,584)**	(241,542)
Balance at the end of the year		**7,977,386**	7,747,810

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 2019. Certain financial information in this announcement is extracted from the statutory financial statements for the year ended 31 December 2019, 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 2020.

The figures in this announcement of the results of the Group for the year ended 31 December 2019 have been agreed to the amounts set out in the Group's draft consolidated financial statements for the year by the Group's auditor, Ernst & Young. The work of Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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 HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have also complied with the applicable disclosure provisions of the 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, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss ("FVPL") and equity investments at fair value through other comprehensive income ("FVOCI").

3. BASIS OF CONSOLIDATION

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

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

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.

4. BASIS OF CAPITAL DISCLOSURES

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

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

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

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

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

5. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

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

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

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

HKFRS 16

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

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

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

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

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

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

Consolidated Statement of Financial Position	31 December 2018 *HK$'000*	**Remeasurement** ***HK$'000***	**1 January 2019** ***HK$'000***
Assets			
Cash and short term placements	3,953,773	**–**	**3,953,773**
Placements with banks and financial institutions maturing after one month but not more than twelve months	1,556,342	**–**	**1,556,342**
Derivative financial instruments	2,541	**–**	**2,541**
Loans and advances and receivables	29,877,579	**–**	**29,877,579**
Equity investments at fair value through other comprehensive income	6,804	**–**	**6,804**
Held-to-collect debt securities at amortised cost	6,202,949	**–**	**6,202,949**
Investment properties	345,715	**–**	**345,715**
Property and equipment	145,090	**–**	**145,090**
Land held under finance leases	676,073	**–**	**676,073**
Right-of-use assets	–	**132,745**	**132,745**
Deferred tax assets	41,338	**1,301**	**42,639**
Tax recoverable	1,222	**–**	**1,222**
Goodwill	2,774,403	**–**	**2,774,403**
Intangible assets	718	**–**	**718**
Other assets	166,343	**–**	**166,343**
Total Assets	45,750,890	**134,046**	**45,884,936**
Equity and Liabilities			
Liabilities			
Deposits and balances of banks and other financial institutions at amortised cost	572,712	**–**	**572,712**
Derivative financial instruments	7,275	**–**	**7,275**
Customer deposits at amortised cost	35,284,322	**–**	**35,284,322**
Dividends payable	186,646	**–**	**186,646**
Unsecured bank loans at amortised cost	1,444,614	**–**	**1,444,614**
Lease liabilities	–	**136,089**	**136,089**
Current tax payable	15,298	**–**	**15,298**
Deferred tax liabilities	36,350	**–**	**36,350**
Other liabilities	455,863	**4,544**	**460,407**
Total Liabilities	38,003,080	**140,633**	**38,143,713**
Equity attributable to owners of the Company			
Issued capital	109,792	**–**	**109,792**
Reserves	7,638,018	**(6,587)**	**7,631,431**
Total Equity	7,747,810	**(6,587)**	**7,741,223**
Total Equity and Liabilities	45,750,890	**134,046**	**45,884,936**

Nature of the effect of adoption of HKFRS 16

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

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

Leases previously classified as finance leases

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

Leases previously classified as operating leases

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

The Group also applied the available practical expedients wherein it:

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

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of HK$132,745,000 were recognised and presented separately in the statement of financial position.

- Additional lease liabilities of HK$136,089,000 were recognised.

- Provisions for dismantling cost of HK$4,544,000 were recognised.

- Deferred tax assets increased by HK$1,301,000 because of the deferred tax impact of the changes in assets and liabilities.

- The net effect of these adjustments had been adjusted to retained earnings in the amount of HK$6,587,000.

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

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

HK(IFRIC)-Int 23

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

Issued but not yet effective HKFRSs

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

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

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

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

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.

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 expected credit loss ("ECL") calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns probabilities of default to the individual grades

- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment

- The segmentation of financial assets based on risk characteristics of the customers and by product types when their ECL is assessed on a collective basis

- Development of ECL models, including the various formulas and the choice of inputs over determination of the period over which the entity is exposed to credit risk based on the behavioural life of the credit exposures, loss given default and collateral recovery of the credit exposures

- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probabilities of default, exposures at default and losses given default

- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the CGUs to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2019 and 31 December 2018 was HK$2,774,403,000, of which HK$832,321,000 was attributed to Public Bank (Hong Kong) and HK$1,942,082,000 was attributed to Public Finance. Further details are set out in note 17 to the financial statements.

Leases – Estimating the incremental borrowing rate

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

Judgements

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

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

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

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

Property lease classification – Group as lessor

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

7. SEGMENT INFORMATION

Operating segment information

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

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

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

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

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

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

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

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

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

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

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

Operating income or revenue from major customers

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

8. INTEREST INCOME AND EXPENSE

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

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

9. OTHER OPERATING INCOME

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

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

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

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

10. OPERATING EXPENSES

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

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

11. CREDIT LOSS EXPENSES

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

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

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

12. TAX

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

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

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

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

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

13. DIVIDENDS

(a) Dividends attributable during the year

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

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

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

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$466,340,000 (2018: HK$510,478,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2018: 1,097,917,618) during the year.

(b) Diluted earnings per share

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

15. LOANS AND ADVANCES AND RECEIVABLES

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

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

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

Loans and advances and receivables are summarised as follows:

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

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

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

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

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

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

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

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

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

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

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

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

The assets taken as collateral should satisfy the following criteria:

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

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

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

– The Group is able to secure control over the asset if necessary.

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

– Central governments with a grading of Aa3 or above

– Unrated public sector enterprises

– Banks with a grading of Baa2 or above

– Unrated corporations

– Individual shareholders and directors of corporate customers

(d) Repossessed assets

As at 31 December 2019, the total value of repossessed assets of the Group amounted to HK$10,170,000 (31 December 2018: HK$33,160,000).

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

	2019		2018	
	Gross amount *HK$'000*	**Percentage of total loans and advances** %	Gross amount *HK$'000*	Percentage of total loans and advances %
Loans and advances overdue for three months or less	**539,581**	**1.88**	446,235	1.49
Trade bills, accrued interest and other receivables overdue for three months or less	**2,921**		2,910	

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

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

	2019			
	Stage 1 *HK$'000*	**Stage 2** *HK$'000*	**Stage 3** *HK$'000*	**Total** *HK$'000*
Gross loans and advances and receivables as at 1 January 2019	**29,701,281**	**172,349**	**198,525**	**30,072,155**
New loans/financing originated	**8,290,617**	**142**	**1,325**	**8,292,084**
Loans/financing derecognised or repaid during the year (other than write-offs)	**(9,112,871)**	**(40,771)**	**(43,947)**	**(9,197,589)**
Transfer to 12-month expected credit loss (Stage 1)	**51,973**	**(25,148)**	**(26,825)**	**–**
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	**(176,976)**	**186,288**	**(9,312)**	**–**
Transfer to lifetime expected credit loss credit impaired (Stage 3)	**(351,223)**	**(43,433)**	**394,656**	**–**
Total transfer between stages	**(476,226)**	**117,707**	**358,519**	**–**
Write-offs	**–**	**–**	**(317,251)**	**(317,251)**
As at 31 December 2019	**28,402,801**	**249,427**	**197,171**	**28,849,399**
Arising from:				
Loans and advances	**28,280,321**	**247,549**	**192,737**	**28,720,607**
Trade bills, accrued interest and other receivables	**122,480**	**1,878**	**4,434**	**128,792**
	28,402,801	**249,427**	**197,171**	**28,849,399**

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK$254,695,000.

	2018			
	Stage 1	Stage 2	Stage 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Gross loans and advances and receivables as at 1 January 2018	29,326,385	183,647	157,084	29,667,116
New loans/financing originated	10,056,861	99	806	10,057,766
Loans/financing derecognised or repaid during the year (other than write-offs)	(9,263,819)	(42,384)	(45,329)	(9,351,532)
Transfer to 12-month expected credit loss (Stage 1)	58,413	(28,434)	(29,979)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(120,751)	123,207	(2,456)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(355,808)	(63,786)	419,594	–
Total transfer between stages	(418,146)	30,987	387,159	–
Write-offs	–	–	(301,195)	(301,195)
As at 31 December 2018	29,701,281	172,349	198,525	30,072,155
Arising from:				
Loans and advances	29,578,369	171,185	195,687	29,945,241
Trade bills, accrued interest and other receivables	122,912	1,164	2,838	126,914
	29,701,281	172,349	198,525	30,072,155

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK$241,201,000.

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

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Internal rating grades:				
Performing				
Pass	**28,229,561**	**–**	**–**	**28,229,561**
Special Mention	**173,240**	**249,427**	**–**	**422,667**
Non-performing				
Substandard	**–**	**–**	**134,448**	**134,448**
Doubtful	**–**	**–**	**50,870**	**50,870**
Loss	**–**	**–**	**11,853**	**11,853**
Total	**28,402,801**	**249,427**	**197,171**	**28,849,399**

	2018			
	Stage 1	Stage 2	Stage 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Internal rating grades:				
Performing				
Pass	29,582,035	–	–	29,582,035
Special Mention	119,246	172,349	–	291,595
Non-performing				
Substandard	–	–	128,919	128,919
Doubtful	–	–	64,829	64,829
Loss	–	–	4,777	4,777
Total	29,701,281	172,349	198,525	30,072,155

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

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
As at 1 January 2019	**108,901**	**29,569**	**56,106**	**194,576**
New loans/financing originated	**78,392**	**–**	**34**	**78,426**
Loans/financing derecognised or repaid during the year (other than write-offs)	**(70,368)**	**(5,788)**	**(125,890)**	**(202,046)**
Transfer to 12-month expected credit loss (Stage 1)	**3,486**	**(532)**	**(2,954)**	**–**
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	**(2,374)**	**2,697**	**(323)**	**–**
Transfer to lifetime expected credit loss credit impaired (Stage 3)	**(9,708)**	**(23,109)**	**32,817**	**–**
Total transfer between stages	**(8,596)**	**(20,944)**	**29,540**	**–**
Impact on year end expected credit loss of exposures transferred between stages during the year	**(413)**	**35,109**	**282,289**	**316,985**
Movements due to changes in credit risk	**3,501**	**–**	**25,228**	**28,729**
Recoveries	**–**	**–**	**119,027**	**119,027**
Write-offs	**–**	**–**	**(317,251)**	**(317,251)**
Exchange differences	**–**	**–**	**–**	**–**
As at 31 December 2019	**111,417**	**37,946**	**69,083**	**218,446**
Arising from:				
Loans and advances	**109,604**	**37,921**	**68,952**	**216,477**
Trade bills, accrued interest and other receivables	**1,741**	**25**	**131**	**1,897**
Loan commitments	**69**	**–**	**–**	**69**
Financial guarantees and letters of credit	**3**	**–**	**–**	**3**
	111,417	**37,946**	**69,083**	**218,446**

	2018			
	Stage 1 *HK$'000*	Stage 2 *HK$'000*	Stage 3 *HK$'000*	Total *HK$'000*
As at 1 January 2018	106,767	33,048	57,923	197,738
New loans/financing originated	79,875	–	27	79,902
Loans/financing derecognised or repaid during the year (other than write-offs)	(69,595)	(7,773)	(146,682)	(224,050)
Transfer to 12-month expected credit loss (Stage 1)	4,070	(990)	(3,080)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(1,921)	2,245	(324)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(8,888)	(23,613)	32,501	–
Total transfer between stages	(6,739)	(22,358)	29,097	–
Impact on year end expected credit loss of exposures transferred between stages during the year	(2,019)	26,651	259,616	284,248
Movements due to changes in credit risk	618	1	21,360	21,979
Recoveries	–	–	135,960	135,960
Write-offs	–	–	(301,195)	(301,195)
Exchange differences	(6)	–	–	(6)
As at 31 December 2018	108,901	29,569	56,106	194,576
Arising from:				
Loans and advances	107,090	29,566	56,041	192,697
Trade bills, accrued interest and other receivables	1,709	3	65	1,777
Loan commitments	99	–	–	99
Financial guarantees and letters of credit	3	–	–	3
	108,901	29,569	56,106	194,576

(g) Finance lease receivables

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

	2019	2018	**2019**	2018
	Minimum lease payments		**Present value of minimum lease payments**	
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts receivable under finance leases:				
Within one year	**435,909**	405,397	**307,461**	284,240
In the second to fifth years, inclusive	**1,287,254**	1,213,656	**900,142**	839,341
Over five years	**4,303,929**	4,296,324	**3,529,219**	3,525,992
	6,027,092	5,915,377	**4,736,822**	4,649,573
Less: Unearned finance income	**(1,290,270)**	(1,265,804)		
Present value of minimum lease payments receivables	**4,736,822**	4,649,573		

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

16. HELD-TO-COLLECT DEBT SECURITIES AT AMORTISED COST

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

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

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

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

17. GOODWILL

	2019 *HK$'000*	2018 *HK$'000*
Cost and net carrying amount:		
At the beginning and the end of the year	**2,774,403**	2,774,403

Impairment test of goodwill

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

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

18. RESERVES

	Notes	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Property revaluation reserve HK$'000	Regulatory reserve# HK$'000	Retained profits HK$'000	Translation reserve HK$'000	Total HK$'000
As at 1 January 2018		4,013,296	829	96,116	–	312,619	2,934,053	58,995	7,415,908
Profit for the year		–	–	–	–	–	510,478	–	510,478
Other comprehensive income		–	–	–	–	–	–	(46,826)	(46,826)
Transfer from regulatory reserve to retained profits		–	–	–	–	(16,079)	16,079	–	–
Dividends for 2018	*13*	–	–	–	–	–	(241,542)	–	(241,542)
As at 31 December 2018 and 1 January 2019		4,013,296	829	96,116	–	296,540	3,219,068	12,169	7,638,018
Impact of adopting HKFRS 16	*5*	**–**	**–**	**–**	**–**	**–**	**(6,587)**	**–**	**(6,587)**
Restated opening balance under HKFRS 16 as at 1 January 2019		**4,013,296**	**829**	**96,116**	**–**	**296,540**	**3,212,481**	**12,169**	**7,631,431**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**466,340**	**–**	**466,340**
Other comprehensive income		**–**	**–**	**–**	**3,982**	**–**	**–**	**(14,575)**	**(10,593)**
Transfer from regulatory reserve to retained profits		**–**	**–**	**–**	**–**	**(88,805)**	**88,805**	**–**	**–**
Dividends for 2019	*13*	**–**	**–**	**–**	**–**	**–**	**(219,584)**	**–**	**(219,584)**
As at 31 December 2019		**4,013,296**	**829**	**96,116**	**3,982**	**207,735**	**3,548,042**	**(2,406)**	**7,867,594**

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

Deducted from the contributed surplus of the Group as at 31 December 2019 was positive goodwill of HK$98,406,000 (31 December 2018: HK$98,406,000), which arose from the acquisition of certain subsidiaries in prior years.

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

19. LEASES

(a) As lessor

The Group leases its investment properties 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	2018
	HK$'000	*HK$'000*
Within one year	**10,222**	8,151
In the second to fifth years, inclusive	**4,975**	4,510
	15,197	12,661

(b) As lessee

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

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

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

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

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

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

	2018
	HK$'000
Within one year	60,989
In the second to fifth years, inclusive	52,608
Over five years	316
	113,913

20. OFF-BALANCE SHEET EXPOSURE

Contingent liabilities, commitments and derivatives

The following is a summary of the contractual amount of each significant class of contingent liabilities, commitments and derivatives of the Group outstanding at the end of the year:

			2019		
	Contractual amount *HK$'000*	**Credit equivalent amount** *HK$'000*	**Credit risk–weighted amount** *HK$'000*	**Positive fair value–assets** *HK$'000*	**Negative fair value–liabilities** *HK$'000*
Direct credit substitutes	**26,492**	**26,492**	**21,787**	**–**	**–**
Transaction-related contingencies	**8,410**	**4,204**	**775**	**–**	**–**
Trade-related contingencies	**9,507**	**1,901**	**1,811**	**–**	**–**
Forward forward deposits placed	**–**	**–**	**–**	**–**	**–**
Forward asset purchases	**–**	**–**	**–**	**–**	**–**
	44,409	**32,597**	**24,373**	**–**	**–**
Derivatives held for trading:					
Foreign exchange rate contracts	**1,013,380**	**25,620**	**7,107**	**15,445**	**4,651**
Other commitments with an original maturity of:					
Not more than one year	**–**	**–**	**–**	**–**	**–**
More than one year	**519**	**260**	**260**	**–**	**–**
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	**3,231,474**	**–**	**–**	**–**	**–**
	4,289,782	**58,477**	**31,740**	**15,445**	**4,651**

	2019 Contractual amount *HK$'000*
Capital commitments contracted for, but not provided in the consolidated statement of financial position	**21,191**

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

	2018 Contractual amount *HK$'000*
Capital commitments contracted for, but not provided in the consolidated statement of financial position	28,711

The corresponding ECLs for the outstanding off-balance sheet exposures are included in the analysis of changes in ECL allowances in note 15(f) to the financial statements.

21. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	2019							
	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:								
Gross cash and short term placements	1,128,726	3,316,134	–	–	–	–	–	4,444,860
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	1,158,967	373,722	–	–	–	1,532,689
Gross loans and advances and receivables	622,577	2,700,333	1,113,429	2,933,967	7,772,135	13,509,787	197,171	28,849,399
Equity investments at fair value through other comprehensive income	–	–	–	–	–	–	6,804	6,804
Gross held-to-collect debt securities at amortised cost	–	896,703	899,327	3,145,272	1,138,068	–	–	6,079,370
Other assets	227	226,216	18,484	48,690	5,314	–	28,427	327,358
Gross foreign exchange contracts	–	522,902	102,926	387,552	–	–	–	1,013,380
Total financial assets	1,751,530	7,662,288	3,293,133	6,889,203	8,915,517	13,509,787	232,402	42,253,860
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	161,350	535,885	90,000	–	–	–	–	787,235
Customer deposits at amortised cost	10,815,799	8,018,572	10,474,590	4,601,386	7,078	–	–	33,917,425
Unsecured bank loans at amortised cost	–	370,000	–	80,000	1,092,693	–	–	1,542,693
Lease liabilities	–	5,289	10,548	41,052	68,078	7,977	–	132,944
Other liabilities	3,098	276,801	88,347	33,425	113	–	189,595	591,379
Gross foreign exchange contracts	–	512,182	102,907	387,497	–	–	–	1,002,586
Total financial liabilities	10,980,247	9,718,729	10,766,392	5,143,360	1,167,962	7,977	189,595	37,974,262
Net liquidity gap	(9,228,717)	(2,056,441)	(7,473,259)	1,745,843	7,747,555	13,501,810	42,807	4,279,598

	2018							
	Repayable on demand *HK$'000*	Up to 1 month *HK$'000*	Over 1 month but not more than 3 months *HK$'000*	Over 3 months but not more than 12 months *HK$'000*	Over 1 year but not more than 5 years *HK$'000*	Over 5 years *HK$'000*	Repayable within an indefinite period *HK$'000*	Total *HK$'000*
Financial assets:								
Gross cash and short term placements	1,110,116	2,844,036	–	–	–	–	–	3,954,152
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	789,889	766,609	–	–	–	1,556,498
Gross loans and advances and receivables	1,110,127	3,357,657	960,785	2,973,979	6,730,206	14,740,876	198,525	30,072,155
Equity investments at fair value through other comprehensive income	–	–	–	–	–	–	6,804	6,804
Gross held-to-collect debt securities at amortised cost	–	618,823	1,080,279	2,607,993	1,896,477	–	–	6,203,572
Other assets	123	73,497	16,736	60,616	10,020	–	5,351	166,343
Gross foreign exchange contracts	–	666,893	89,405	–	–	–	–	756,298
Total financial assets	2,220,366	7,560,906	2,937,094	6,409,197	8,636,703	14,740,876	210,680	42,715,822
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	82,592	230,120	240,000	20,000	–	–	–	572,712
Customer deposits at amortised cost	11,516,233	7,227,387	8,656,581	7,252,688	631,433	–	–	35,284,322
Unsecured bank loans at amortised cost	–	355,000	–	–	1,089,614	–	–	1,444,614
Other liabilities	4,114	119,537	30,183	82,919	39,556	–	179,554	455,863
Gross foreign exchange contracts	–	669,297	91,735	–	–	–	–	761,032
Total financial liabilities	11,602,939	8,601,341	9,018,499	7,355,607	1,760,603	–	179,554	38,518,543
Net liquidity gap	(9,382,573)	(1,040,435)	(6,081,405)	(946,410)	6,876,100	14,740,876	31,126	4,197,279

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 2019 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 shall be appointed for a specific term and subject to re-election. The Board is of the view that the current practice of appointing Non-Executive Directors without a specific term but otherwise subject to rotation and re-election by shareholders at an annual general meeting ("AGM") of the Company is fair and reasonable, and does not intend to change the current practice at the moment.

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

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

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 16 March 2020 to Friday, 20 March 2020, 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 properly completed 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 13 March 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

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

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

FINANCIAL REVIEW

Revenue and earnings

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

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

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

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

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

Loans and advances, customer deposits and total assets

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

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

Group's branch network

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

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

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

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

Business performance in loans and customer deposits

Public Bank (Hong Kong)

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

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

Public Finance

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

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

Significant investments

The Company has a significant investment, with a value of 5% or more of the Company's total assets, in Public Bank (Hong Kong). The principal businesses of Public Bank (Hong Kong) are discussed under the "Group's branch network" of this section. The investment cost in the subsidiary amounted to HK$6.59 billion or 69.2% of total assets of the Company, and such cost reflected the fair value of the Company's investment. Public Bank (Hong Kong)'s business strategy focuses on its loan development, deposit-taking, stockbroking and bank assurance business operations; and continues to strike a balance between pursuing business growth and maintaining sound liquidity and asset quality. Public Bank (Hong Kong) recorded a profit of HK$443.1 million on consolidated basis, which represented 6.7% in regard to the return of the Company's investment. Further details of such investment (including the number and percentage of shares held) in Public Bank (Hong Kong) will be disclosed in the 2019 Annual Report.

Segmental information

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

Contingent liabilities and commitments

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

OPERATIONAL REVIEW

Funding and capital management

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

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

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

Asset quality and credit management

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

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

Human resources management

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

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

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

PROSPECTS

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

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

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

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

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

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 Audit Committee of the Company comprises three Independent Non-Executive Directors, namely Mr. Tang Wing Chew, Mr. Lee Chin Guan and Mr. Lai Wan, and one Non-Executive Director, namely Mr. Quah Poh Keat. The annual results for the year ended 31 December 2019 as set out in this announcement have been reviewed by the Audit Committee.

PUBLICATION OF 2019 ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement of the Group for the year ended 31 December 2019 is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.publicfinancial.com.hk. The 2019 Annual Report containing all applicable information required by the Listing Rules will be despatched to the shareholders of the Company and published on the above websites in or around mid-February 2020.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my gratitude to the management and staff of the Group for their commitment and contribution during the year. I would also like to express my appreciation to the guidance from the regulators and continued support from our shareholders and customers.

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

Hong Kong, 16 January 2020

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 as Executive Director, and Mr. Lai Wan, Mr. Lee Chin Guan and Mr. Tang Wing Chew as Independent Non-Executive Directors.