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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 2021

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 (collectively, the “Group”) for the year ended 31 December 2021 with comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Year ended 31 December	
		2021	2020
		HK\$'000	HK\$'000
Interest income	8	1,449,738	1,653,284
Interest expense	8	(167,827)	(420,312)
NET INTEREST INCOME		1,281,911	1,232,972
Other operating income	9	233,197	324,960
OPERATING INCOME		1,515,108	1,557,932
Operating expenses	10	(831,120)	(858,654)
Changes in fair value of investment properties		8,995	(33,376)
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		692,983	665,902
Credit loss expenses	11	(90,809)	(185,605)

* For identification purpose only

		Year ended 31 December	
		2021	2020
	<i>Notes</i>	HK\$'000	HK\$'000
PROFIT BEFORE TAX		602,174	480,297
Tax	12	<u>(105,713)</u>	<u>(83,300)</u>
PROFIT FOR THE YEAR		<u>496,461</u>	<u>396,997</u>
ATTRIBUTABLE TO:			
Owners of the Company		<u>496,461</u>	<u>396,997</u>
EARNINGS PER SHARE (HK\$)	14		
Basic		<u>0.452</u>	<u>0.362</u>
Diluted		<u>0.452</u>	<u>0.362</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE YEAR	496,461	396,997
OTHER COMPREHENSIVE INCOME FOR THE YEAR		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations, net of tax	<u>27,289</u>	<u>55,446</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>523,750</u>	<u>452,443</u>
ATTRIBUTABLE TO:		
Owners of the Company	<u>523,750</u>	<u>452,443</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	31 December 2021 HK\$'000	31 December 2020 HK\$'000
ASSETS			
Cash and short term placements		4,320,631	6,224,637
Placements with banks and financial institutions maturing after one month but not more than twelve months		2,290,111	1,771,165
Derivative financial instruments		1,551	25,751
Loans and advances and receivables	15	26,067,203	26,078,500
Equity investments at fair value through other comprehensive income		6,804	6,804
Held-to-collect debt securities at amortised cost	16	6,479,066	6,735,263
Investment properties		366,935	357,940
Property and equipment		186,742	191,142
Land held under finance leases		672,293	680,165
Right-of-use assets		133,358	112,918
Deferred tax assets		38,845	34,603
Tax recoverable		1,903	1,772
Goodwill	17	2,774,403	2,774,403
Intangible assets		718	718
Other assets		187,589	442,542
TOTAL ASSETS		43,528,152	45,438,323
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		465,638	421,138
Derivative financial instruments		6,748	2,682
Customer deposits at amortised cost		32,175,337	34,192,747
Dividends payable		164,687	131,750
Unsecured bank loans at amortised cost		1,579,636	1,575,018
Lease liabilities		137,197	118,200
Current tax payable		72,537	41,273
Deferred tax liabilities		47,298	45,358
Other liabilities		309,766	645,016
TOTAL LIABILITIES		34,958,844	37,173,182
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		109,792	109,792
Reserves	18	8,459,516	8,155,349
TOTAL EQUITY		8,569,308	8,265,141
TOTAL EQUITY AND LIABILITIES		43,528,152	45,438,323

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>Note</i>	Year ended 31 December	
		2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
TOTAL EQUITY			
Balance at the beginning of the year		8,265,141	7,977,386
Profit for the year		496,461	396,997
Other comprehensive income in translation reserve		27,289	55,446
Total comprehensive income for the year		523,750	452,443
Dividends declared on shares	<i>13(a)</i>	(219,583)	(164,688)
Balance at the end of the year		<u>8,569,308</u>	<u>8,265,141</u>

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 2021. Certain financial information in this announcement is extracted from the statutory financial statements for the year ended 31 December 2021, 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 2022.

The figures in this announcement of the results of the Group for the year ended 31 December 2021 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 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 (the "HKMA").

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

3. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2021.

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:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

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

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

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

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

The subsidiaries consolidated for accounting purposes are Public Bank (Hong Kong) 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 the capital base and the capital adequacy ratios as stipulated by the HKMA, and has referred to the Banking (Disclosure) Rules.

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

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

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

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 Ordinance relating to the Basel III capital standards and the Banking (Capital) Rules (the “Capital Rules”). The Capital Rules outline the general requirements on regulatory capital ratios, the components of eligible regulatory capital as well as the levels of those ratios at which banking institutions are required to operate. The Capital Rules have been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision. Under the Capital Rules, the required capital conservation buffer ratio for 2020 and 2021 is 2.5%, whilst the required countercyclical capital buffer ratio for 2020 and 2021 is 1.0%.

5. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The HKICPA has issued a number of revised HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2021. The Group has adopted the following revised standards for the first time for the current year’s financial statements:

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2*
- Amendment to HKFRS 16 *COVID-19-Related Rent Concessions Beyond 30 June 2021*

The nature and impact of the amendments are described below.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 – Interest Rate Benchmark Reform – Phase 2

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (“IBOR”) is replaced with an alternative nearly risk-free interest rate (“RFR”).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
- Provide temporary reliefs to entities from having to meet the separately identifiable requirement when a RFR instrument is designated as a hedge of a risk component.

These amendments have no impact on the financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

Amendment to HKFRS 16 – COVID-19-Related Rent Concessions Beyond 30 June 2021

Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided that the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

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

Issued but not yet effective HKFRSs

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

- Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies¹*
- Amendments to HKAS 8 *Definition of Accounting Estimates¹*

¹ *Effective for annual periods beginning on or after 1 January 2023*

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

Amendments to HKAS 1 and HKFRS Practice Statement 2 replace the requirement of entities to disclose their significant accounting policies with a requirement to disclose their material accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make based on those financial statements. The amendments to HKFRS Practice Statement 2 provide guidance on applying materiality judgements on accounting policy disclosures. In assessing the materiality of accounting policy information, entities are required to consider both the size of the transactions, other events or conditions and the nature of them. The amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 8 provide a new definition for accounting estimates. The new definition states that accounting estimates are monetary amounts that are subject to material uncertainty. The amendments clarify the distinction among changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. 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 cash generating units (“CGUs”) to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2021 and 31 December 2020 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 a 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 that is measured net of associated direct expenses. 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 2021 and 31 December 2020.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue								
External:								
Net interest income/(expense)	1,282,000	1,233,474	(89)	(502)	–	–	1,281,911	1,232,972
Other operating income:								
Net fees and commission income	119,218	126,502	65,692	82,975	–	52	184,910	209,529
Others	33,559	99,967	2	871	14,726	14,593	48,287	115,431
Operating income	1,434,777	1,459,943	65,605	83,344	14,726	14,645	1,515,108	1,557,932
Operating profit/(loss) after credit loss expenses before tax	563,965	467,586	28,451	45,620	9,758	(32,909)	602,174	480,297
Tax							(105,713)	(83,300)
Profit for the year							496,461	396,997
Other segment information								
Depreciation of property and equipment and land held under finance leases	(41,741)	(41,306)	–	–	–	–	(41,741)	(41,306)
Depreciation of right-of-use assets	(60,199)	(64,092)	–	–	–	–	(60,199)	(64,092)
Changes in fair value of investment properties	–	–	–	–	8,995	(33,376)	8,995	(33,376)
Credit loss expenses	(90,809)	(185,605)	–	–	–	–	(90,809)	(185,605)
Net (losses)/gains on disposal of property and equipment	(7)	3	–	–	–	–	(7)	3

The following table discloses certain assets and liabilities information regarding operating segments as at 31 December 2021 and 31 December 2020.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets other than intangible assets and goodwill	39,950,012	41,847,763	395,219	421,085	367,052	357,979	40,712,283	42,626,827
Intangible assets	-	-	718	718	-	-	718	718
Goodwill	2,774,403	2,774,403	-	-	-	-	2,774,403	2,774,403
Segment assets	42,724,415	44,622,166	395,937	421,803	367,052	357,979	43,487,404	45,401,948
Unallocated assets:								
Deferred tax assets and tax recoverable							40,748	36,375
Total assets							43,528,152	45,438,323
Segment liabilities	34,556,925	36,797,289	111,985	152,484	5,412	5,028	34,674,322	36,954,801
Unallocated liabilities:								
Deferred tax liabilities and tax payable							119,835	86,631
Dividends payable							164,687	131,750
Total liabilities							34,958,844	37,173,182
Other segment information								
Additions to non-current assets – capital expenditure	29,481	56,549	-	-	-	-	29,481	56,549

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 2021 and 31 December 2020.

	2021 HK\$'000	2020 HK\$'000
Segment revenue from external customers:		
Hong Kong	1,403,743	1,428,855
Mainland China	111,365	129,077
	1,515,108	1,557,932

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

The following table discloses the non-current assets information for geographical segments as at 31 December 2021 and 31 December 2020.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current assets:		
Hong Kong	4,106,064	4,093,386
Mainland China	28,385	23,900
	<u>4,134,449</u>	<u>4,117,286</u>

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% (2020: less than 10%) of the Group's total operating income or revenue.

8. INTEREST INCOME AND EXPENSE

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest income from:		
Loans and advances and receivables	1,366,108	1,491,737
Short term placements and placements with banks	43,955	62,988
Held-to-collect debt securities at amortised cost	39,675	98,559
	<u>1,449,738</u>	<u>1,653,284</u>
Interest expense on:		
Deposits from banks and financial institutions	1,085	5,211
Deposits from customers	142,065	374,886
Bank loans	21,780	36,844
Others	2,897	3,371
	<u>167,827</u>	<u>420,312</u>

Interest income and interest expense for the year ended 31 December 2021, calculated using the effective interest method for financial assets and financial liabilities which are not designated at FVPL, amounted to HK\$1,449,738,000 and HK\$167,827,000 (2020: HK\$1,653,284,000 and HK\$420,312,000) respectively.

9. OTHER OPERATING INCOME

	2021 HK\$'000	2020 HK\$'000
Fees and commission income:		
Retail and commercial banking and other businesses	121,746	128,886
Wealth management services, stockbroking and securities management	65,692	82,975
	187,438	211,861
Less: Fees and commission expenses	(2,528)	(2,332)
Net fees and commission income	184,910	209,529
Gross rental income	14,798	14,659
Less: Direct operating expenses	(73)	(78)
Net rental income	14,725	14,581
Gains less losses arising from dealing in foreign currencies	34,555	5,596
Net (losses)/gains on derivative financial instruments	(5,197)	23,070
	29,358	28,666
Net (losses)/gains on disposal of property and equipment	(7)	3
Gain on termination of leases	1,524	1,342
Dividend income from listed investments	202	156
Dividend income from unlisted investments	35	35
Government subsidies	1,047	68,874
Others	1,403	1,774
	233,197	324,960

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

For the year ended 31 December 2021, the government subsidy was granted under the Financial Industry Recruitment Scheme for Tomorrow which aims to create full-time jobs in the financial services sector under the Anti-epidemic Fund of the Hong Kong Government.

For the year ended 31 December 2020, the government subsidies were granted under the Employment Support Scheme, Subsidy Scheme for the Securities Industry and one-off subsidy for transport trades which aim to retain employment and combat the COVID-19 epidemic under the same fund.

There were no net gains or losses arising from equity investments at FVOCI, loans and advances and receivables, financial assets and financial liabilities measured at amortised cost and financial assets and financial liabilities designated at FVPL for the years ended 31 December 2021 and 31 December 2020.

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Staff costs:		
Salaries and other staff costs	502,025	509,449
Pension contributions	23,716	25,627
Less: Forfeited contributions	(88)	(59)
Net contribution to retirement benefit schemes	23,628	25,568
	525,653	535,017
Other operating expenses:		
Depreciation of right-of-use assets	60,199	64,092
Depreciation of property and equipment and land held under finance leases	41,741	41,306
Auditors' remuneration	4,550	4,468
Administrative and general expenses	70,271	79,407
Others	128,706	134,364
Operating expenses before changes in fair value of investment properties	831,120	858,654

As at 31 December 2021 and 31 December 2020, 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 2021 and 31 December 2020 arose in respect of staff who left the schemes during the years.

11. CREDIT LOSS EXPENSES

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

	2021			Total HK\$'000
	12-month expected credit loss (Stage 1) HK\$'000	Lifetime expected credit loss not credit impaired (Stage 2) HK\$'000	Lifetime expected credit loss credit impaired (Stage 3) HK\$'000	
Net charge for/(write-back of) credit loss expenses:				
– loans and advances	(13)	(2,153)	92,076	89,910
– trade bills, accrued interest and other receivables	107	–	944	1,051
– cash and short term placements	(193)	–	–	(193)
– placements with banks and financial institutions	52	–	–	52
– held-to-collect debt securities at amortised cost	(25)	–	–	(25)
– loan commitments	14	–	–	14
– financial guarantees and letters of credit	–	–	–	–
	(58)	(2,153)	93,020	90,809

	2020			Total HK\$'000
	12-month expected credit loss (Stage 1) HK\$'000	Lifetime expected credit loss not credit impaired (Stage 2) HK\$'000	Lifetime expected credit loss credit impaired (Stage 3) HK\$'000	
Net charge for/(write-back of) credit loss expenses:				
– loans and advances	(14,356)	(13,857)	213,203	184,990
– trade bills, accrued interest and other receivables	(515)	(12)	922	395
– cash and short term placements	186	–	–	186
– placements with banks and financial institutions	24	–	–	24
– held-to-collect debt securities at amortised cost	64	–	–	64
– loan commitments	(53)	–	–	(53)
– financial guarantees and letters of credit	(1)	–	–	(1)
	(14,651)	(13,869)	214,125	185,605

12. TAX

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current tax charge:		
Hong Kong	86,964	53,892
Overseas	20,039	24,036
Over-provision in prior years	–	(1,058)
Deferred tax (credit)/charge, net	<u>(1,290)</u>	<u>6,430</u>
	<u>105,713</u>	<u>83,300</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 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:

	Hong Kong		2021 Mainland China		Total	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Profit before tax	<u>529,335</u>		<u>72,839</u>		<u>602,174</u>	
Tax at the applicable tax rate	87,340	16.5	18,210	25.0	105,550	17.5
Estimated tax effect of net expenses that are not deductible	149	–	14	–	163	–
Adjustments in respect of current tax of previous years	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Tax charge at the Group's effective rate	<u>87,489</u>	<u>16.5</u>	<u>18,224</u>	<u>25.0</u>	<u>105,713</u>	<u>17.5</u>

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

13. DIVIDENDS

(a) Dividends declared during the year

	2021 <i>HK\$ per ordinary share</i>	2020 <i>HK\$ per ordinary share</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
First interim dividend declared and paid	0.05	0.03	54,896	32,938
Second interim dividend declared	<u>0.15</u>	<u>0.12</u>	<u>164,687</u>	<u>131,750</u>
	<u>0.20</u>	<u>0.15</u>	<u>219,583</u>	<u>164,688</u>

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

	2021 <i>HK\$ per ordinary share</i>	2020 <i>HK\$ per ordinary share</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Second interim dividend in respect of the previous year	<u>0.12</u>	<u>0.15</u>	<u>131,750</u>	<u>164,688</u>

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\$496,461,000 (2020: HK\$396,997,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2020: 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 2021 and 31 December 2020.

15. LOANS AND ADVANCES AND RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Loans and advances to customers	26,154,174	26,154,721
Trade bills	11,989	20,981
Loans and advances, and trade bills	26,166,163	26,175,702
Accrued interest	72,416	69,389
Other receivables	26,238,579 12,900	26,245,091 14,000
Gross loans and advances and receivables	26,251,479	26,259,091
Less: Impairment allowances*		
– specifically assessed	(65,752)	(60,022)
– collectively assessed	(118,524)	(120,569)
	(184,276)	(180,591)
Loans and advances and receivables	<u>26,067,203</u>	<u>26,078,500</u>

Over 90% (31 December 2020: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (31 December 2020: 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\$32,000 and HK\$18,000 on off-balance sheet credit exposures as at 31 December 2021 and 31 December 2020 respectively.

Loans and advances and receivables are summarised as follows:

	2021 HK\$'000	2020 <i>HK\$'000</i>
Neither past due nor impaired loans and advances and receivables	25,443,428	25,475,337
Past due but not impaired loans and advances and receivables	560,052	551,920
Credit impaired loans and advances	234,512	222,914
Credit impaired receivables	13,487	8,920
	<hr/>	<hr/>
Gross loans and advances and receivables	<u>26,251,479</u>	<u>26,259,091</u>

About 69% (31 December 2020: about 69%) 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

	2021		2020	
	Gross amount <i>HK\$'000</i>	Percentage of total loans and advances %	Gross amount <i>HK\$'000</i>	Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	53,091	0.21	62,784	0.24
One year or less but over six months	23,791	0.09	45,939	0.17
Over one year	118,101	0.45	49,327	0.19
	<hr/>	<hr/>	<hr/>	<hr/>
Loans and advances overdue for more than three months	194,983	0.75	158,050	0.60
Rescheduled loans and advances overdue for three months or less	28,165	0.11	53,761	0.21
Impaired loans and advances overdue for three months or less	11,364	0.04	11,103	0.04
	<hr/>	<hr/>	<hr/>	<hr/>
Total overdue and impaired loans and advances	<u>234,512</u>	<u>0.90</u>	<u>222,914</u>	<u>0.85</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	471	525
One year or less but over six months	1,158	2,017
Over one year	<u>11,792</u>	<u>6,338</u>
 Trade bills, accrued interest and other receivables overdue for more than three months	 13,421	 8,880
 Impaired trade bills, accrued interest and other receivables overdue for three months or less	 <u>66</u>	 <u>40</u>
 Total overdue and impaired trade bills, accrued interest and other receivables	 <u><u>13,487</u></u>	 <u><u>8,920</u></u>

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

	Hong Kong <i>HK\$'000</i>	2021 Mainland China <i>HK\$'000</i>	Total <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	2020 Mainland China <i>HK\$'000</i>	Total <i>HK\$'000</i>
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	<u>95,182</u>	<u>113,222</u>	<u>208,404</u>	93,218	<u>73,712</u>	<u>166,930</u>
Impairment allowances specifically assessed	<u>40,431</u>	<u>12,207</u>	<u>52,638</u>	<u>33,759</u>	<u>7,995</u>	<u>41,754</u>
Current market value and fair value of collateral			<u>259,176</u>			<u>200,875</u>
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	<u>133,141</u>	<u>114,858</u>	<u>247,999</u>	158,122	<u>73,712</u>	<u>231,834</u>
Impairment allowances specifically assessed	<u>53,545</u>	<u>12,207</u>	<u>65,752</u>	<u>52,027</u>	<u>7,995</u>	<u>60,022</u>
Current market value and fair value of collateral			<u>278,001</u>			<u>216,561</u>

Over 90% (31 December 2020: 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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	<u>259,176</u>	<u>200,875</u>
Covered portion of overdue loans and advances	<u>147,671</u>	<u>116,065</u>
Uncovered portion of overdue loans and advances	<u>47,312</u>	<u>41,985</u>

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 2021, the total value of repossessed assets of the Group amounted to HK\$34,145,000 (31 December 2020: HK\$19,890,000).

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

	2021		2020	
	Gross amount <i>HK\$'000</i>	Percentage of total loans and advances %	Gross amount <i>HK\$'000</i>	Percentage of total loans and advances %
Loans and advances overdue for three months or less	<u>556,719</u>	<u>2.13</u>	<u>548,698</u>	<u>2.10</u>
Trade bills, accrued interest and other receivables overdue for three months or less	<u>3,333</u>		<u>3,222</u>	

(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:

	2021			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
Gross loans and advances and receivables as at 1 January 2021	25,759,389	267,868	231,834	26,259,091
New loans/financing originated	7,151,313	1,900	4,132	7,157,345
Loans/financing derecognised or repaid during the year (other than write-offs)	(6,861,970)	(40,313)	(62,817)	(6,965,100)
Transfer to 12-month expected credit loss (Stage 1)	105,536	(90,293)	(15,243)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(190,526)	192,248	(1,722)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(211,160)	(80,512)	291,672	-
Total transfer between stages	(296,150)	21,443	274,707	-
Write-offs	-	-	(199,857)	(199,857)
As at 31 December 2021	<u>25,752,582</u>	<u>250,898</u>	<u>247,999</u>	<u>26,251,479</u>
Arising from:				
Loans and advances	25,670,854	248,808	234,512	26,154,174
Trade bills, accrued interest and other receivables	81,728	2,090	13,487	97,305
	<u>25,752,582</u>	<u>250,898</u>	<u>247,999</u>	<u>26,251,479</u>

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK\$160,164,000.

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

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

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

	2021			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
Internal rating grades:				
Performing				
Pass	25,540,678	–	–	25,540,678
Special Mention	211,904	250,898	–	462,802
Non-performing				
Substandard	–	–	85,574	85,574
Doubtful	–	–	145,513	145,513
Loss	–	–	16,912	16,912
Total	<u>25,752,582</u>	<u>250,898</u>	<u>247,999</u>	<u>26,251,479</u>

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

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

	2021			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
As at 1 January 2021	96,492	24,077	60,022	180,591
New loans/financing originated	54,147	–	531	54,678
Loans/financing derecognised or repaid during the year (other than write-offs)	(54,155)	(4,189)	(118,681)	(177,025)
Transfer to 12-month expected credit loss (Stage 1)	6,204	(3,346)	(2,858)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(1,643)	1,780	(137)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(5,903)	(15,362)	21,265	–
Total transfer between stages	(1,342)	(16,928)	18,270	–
Impact on year end expected credit loss of exposures transferred between stages during the year	(3,442)	18,983	169,147	184,688
Movements due to changes in credit risk	4,900	(19)	23,753	28,634
Recoveries	–	–	112,567	112,567
Write-offs	–	–	(199,857)	(199,857)
As at 31 December 2021	96,600	21,924	65,752	184,276
Arising from:				
Loans and advances	95,235	21,911	63,755	180,901
Trade bills, accrued interest and other receivables	1,333	13	1,997	3,343
Loan commitments	30	–	–	30
Financial guarantees and letters of credit	2	–	–	2
	96,600	21,924	65,752	184,276

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

(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:

	2021	2020	2021	2020
	Undiscounted lease payments		Net investment in finance leases	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts receivable under finance leases:				
Within one year	406,350	370,053	266,342	237,644
Over one year but within two years	348,885	321,793	229,645	208,191
Over two years but within three years	298,033	280,518	186,761	174,282
Over three years but within four years	256,102	237,055	150,386	135,960
Over four years but within five years	229,673	207,145	127,888	109,549
Over five years	5,232,762	5,190,583	4,014,407	3,952,305
	<u>6,771,805</u>	<u>6,607,147</u>	<u>4,975,429</u>	<u>4,817,931</u>
Less: Unearned finance income	<u>(1,796,376)</u>	<u>(1,789,216)</u>		
Net investment in finance leases	<u>4,975,429</u>	<u>4,817,931</u>		

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Certificates of deposit held	3,384,230	3,536,714
Treasury bills and government bonds (including Exchange Fund Bills)	2,071,457	2,047,479
Other debt securities	1,024,028	1,151,744
Gross held-to-collect debt securities at amortised cost	6,479,715	6,735,937
Less: Impairment allowances collectively assessed		
As at 1 January 2021 and 2020	(674)	(610)
Credit loss expenses released/(charged) to the consolidated income statement during the year	25	(64)
	(649)	(674)
	6,479,066	6,735,263
Listed or unlisted:		
– Listed in Hong Kong	1,024,776	566,036
– Listed outside Hong Kong	107,590	35,855
– Unlisted	5,347,349	6,134,046
	6,479,715	6,735,937
Analysed by type of issuers:		
– Central governments	2,071,457	2,047,479
– Public sector entities	500,000	499,991
– Corporates	31,484	–
– Banks and other financial institutions	3,876,774	4,188,467
	6,479,715	6,735,937

There were no impairment allowances specifically assessed made against held-to-collect debt securities at amortised cost as at 31 December 2021 and 31 December 2020.

There were neither impaired nor overdue held-to-collect debt securities at amortised cost as at 31 December 2021 and 31 December 2020.

Over 90% (31 December 2020: over 90%) of 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.

17. GOODWILL

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Cost and net carrying amount:		
At the beginning and the end of the year	<u>2,774,403</u>	<u>2,774,403</u>

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 that of the other CGU at the date of acquisition. The carrying amount of goodwill as at 31 December 2021 and 31 December 2020 was HK\$2,774,403,000, of which HK\$832,321,000 was attributed to Public Bank (Hong Kong) and HK\$1,942,082,000 was attributed to Public Finance. The recoverable amounts of the CGUs at each subsequent reporting date are determined based on the value-in-use using the present value of cash flows taking into account the expected operating synergy, profitability and growth of businesses arising from the acquisition of Public Bank (Hong Kong) and its subsidiaries. The cash flow projections are based on financial plans approved by management and assumed growth rates are used to extrapolate the cash flows beyond 5 years. The financial projection considers the sustainability of business growth, stability of core business developments, long-term economic cycle, availability of financial resources for business expansion and compliance with regulatory capital and liquidity requirements, and achievement of business targets extrapolated from a track record of financial results. Management’s financial model assumes an average growth rate of 3.0% per annum for both CGUs from the sixth years taking into account long-term gross domestic product growth and other relevant economic factors. A discount rate of 6.9% is used for both CGUs based on the pre-tax weighted average cost of capital plus an appropriate risk premium relating to the CGUs at the date of assessment.

No impairment loss has been recognised in respect of goodwill for the years ended 31 December 2021 and 31 December 2020 as its value-in-use exceeded its carrying amount.

18. RESERVES

	Note	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Property revaluation reserve HK\$'000	Regulatory reserve [#] HK\$'000	Retained profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
As at 1 January 2020		4,013,296	829	96,116	3,982	207,735	3,548,042	(2,406)	7,867,594
Profit for the year		-	-	-	-	-	396,997	-	396,997
Other comprehensive income		-	-	-	-	-	-	55,446	55,446
Transfer from regulatory reserve to retained profits		-	-	-	-	(154,455)	154,455	-	-
Dividends for 2020	13	-	-	-	-	-	(164,688)	-	(164,688)
As at 31 December 2020 and 1 January 2021		4,013,296	829	96,116	3,982	53,280	3,934,806	53,040	8,155,349
Profit for the year		-	-	-	-	-	496,461	-	496,461
Other comprehensive income		-	-	-	-	-	-	27,289	27,289
Transfer to regulatory reserve from retained profits		-	-	-	-	1,532	(1,532)	-	-
Dividends for 2021	13	-	-	-	-	-	(219,583)	-	(219,583)
As at 31 December 2021		4,013,296	829	96,116	3,982	54,812	4,210,152	80,329	8,459,516

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 2021 was positive goodwill of HK\$98,406,000 (31 December 2020: 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 4 years.

As at 31 December 2021 and 31 December 2020, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within one year	10,054	5,579
Over one year but within two years	4,929	1,375
Over two years but within three years	1,918	274
Over three years but within four years	228	–
	<u>17,129</u>	<u>7,228</u>

(b) As lessee

The Group has entered into certain future lease arrangements with landlords, and the terms of the leases range from 2 to 3 years. As at 31 December 2021 and 31 December 2020, the Group had total future lease payments for leases committed but not yet commenced falling due as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within one year	4,331	4,282
In the second to fifth years, inclusive	8,074	11,122
Over five years	–	30
	<u>12,405</u>	<u>15,434</u>

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:

	Contractual amount <i>HK\$'000</i>	Credit equivalent amount <i>HK\$'000</i>	2021 Credit risk- weighted amount <i>HK\$'000</i>	Positive fair value- assets <i>HK\$'000</i>	Negative fair value- liabilities <i>HK\$'000</i>
Direct credit substitutes	23,011	23,011	18,365	-	-
Transaction-related contingencies	4,002	2,001	816	-	-
Trade-related contingencies	11,601	2,320	2,223	-	-
Forward forward deposits placed	272,874	272,874	54,575	-	-
Forward asset purchases	-	-	-	-	-
	<u>311,488</u>	<u>300,206</u>	<u>75,979</u>	-	-
Derivatives held for trading:					
Foreign exchange rate contracts	934,327	15,253	3,051	1,551	6,748
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	77,920	38,960	38,960	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	<u>2,256,137</u>	-	-	-	-
	<u><u>3,579,872</u></u>	<u><u>354,419</u></u>	<u><u>117,990</u></u>	<u><u>1,551</u></u>	<u><u>6,748</u></u>

**2021
Contractual
amount
*HK\$'000***

Capital commitments contracted for, but not provided
in the consolidated statement of financial position

8,347

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

Capital commitments contracted for, but not provided
in the consolidated statement of financial position

13,144

The corresponding ECLs for the outstanding off-balance sheet exposures are included in the analysis of changes in ECL allowances as disclosed 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 (including key off-balance sheet items) analysed by principal according to the periods that they are expected to be recovered or settled.

	2021							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Financial assets:								
Gross cash and short term placements	1,042,204	3,278,839	-	-	-	-	-	4,321,043
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	1,614,325	676,015	-	-	-	2,290,340
Gross loans and advances and receivables	583,355	1,680,795	1,177,633	2,610,649	6,180,010	13,756,324	262,713	26,251,479
Equity investments at fair value through other comprehensive income	-	-	-	-	-	-	6,804	6,804
Gross held-to-collect debt securities at amortised cost	-	281,031	1,340,646	3,611,281	1,246,757	-	-	6,479,715
Other assets	37	112,345	6,314	5,152	2,825	-	60,916	187,589
Gross foreign exchange contracts	-	589,682	344,645	-	-	-	-	934,327
Total financial assets	1,625,596	5,942,692	4,483,563	6,903,097	7,429,592	13,756,324	330,433	40,471,297
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	86,562	239,076	90,000	50,000	-	-	-	465,638
Customer deposits at amortised cost	12,826,136	5,854,040	10,289,052	3,198,869	7,240	-	-	32,175,337
Unsecured bank loans at amortised cost	-	1,579,636	-	-	-	-	-	1,579,636
Lease liabilities	-	4,510	8,618	33,733	77,521	12,815	-	137,197
Other liabilities	1,404	127,741	11,363	4,519	192	-	164,547	309,766
Gross foreign exchange contracts	-	591,530	347,994	-	-	-	-	939,524
Total financial liabilities	12,914,102	8,396,533	10,747,027	3,287,121	84,953	12,815	164,547	35,607,098
Net liquidity gap	(11,288,506)	(2,453,841)	(6,263,464)	3,615,976	7,344,639	13,743,509	165,886	4,864,199

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

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 2021 Annual Report, in compliance with the code provisions (“Code Provision(s)”) of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Listing Rules, except for the deviations under Code Provisions A.4.1, A.5.1 and E.1.2 of the CG Code as explained below with considered reasons for such deviations. Also, the non-compliance with Rules 3.10(1), 3.10(2), 3.10A, 3.21 and 3.25 of the Listing Rules is explained below.

Deviations from Code Provisions A.4.1 and E.1.2 of the CG Code

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 and invite the chairmen of the audit, remuneration and nomination committees to attend and be available to answer questions at the AGM. Tan Sri Dato’ Sri Dr. Teh Hong Piow, the Board Chairman of the Company, was absent from the 2021 AGM of the Company held in April 2021 due to other engagement. The 2021 AGM was chaired by the Executive Director, Mr. Tan Yoke Kong, with the consent of members present. The Chairmen of the Company’s Audit Committee and Nomination and Remuneration Committee, and the respective Chairmen of the Board Committees of Public Bank (Hong Kong) and Public Finance also participated in the 2021 AGM by electronic means in Malaysia due to the outbreak of COVID-19.

At the 2021 AGM, the Company had strictly followed the regulatory restrictions under the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation (Cap. 599G) and the “Joint Statement in relation to General Meetings in light of the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation” issued by the SFC and the Stock Exchange dated 1 April 2020. To reduce the risk of spreading of COVID-19 by dis-allowing group gathering for long time while providing an opportunity for the shareholders to raise questions at the 2021 AGM, the Company had invited shareholders to submit their comments/feedback/enquiries via a Q&A form and the Company had replied shareholders’ enquiries promptly after the meeting. This deviated from the Code Provision E.1.2 of the CG Code that requires the chairmen of the board and various committees to answer questions at the AGM. The Company will review such arrangement in future general meetings.

Non-compliance with Rules 3.10(1), 3.10(2), 3.10A, 3.21 and 3.25 of the Listing Rules, and deviation from Code Provision A.5.1 of the CG Code

As disclosed in the announcement of the Company dated 8 June 2021, following the re-designation of Mr. Lai Wan from Independent Non-Executive Co-Chairman to Non-Executive Co-Chairman of the Company, and his cessation to be the Chairman of the Nomination and Remuneration Committee on 8 June 2021, the Board comprised eight members, including one Executive Director, five Non-Executive Directors and two Independent Non-Executive Directors, and thus (i) the number of Independent Non-Executive Directors of the Company fell below the minimum number required under Rules 3.10(1) and 3.10A of the Listing Rules; (ii) the Company did not meet the requirement under Rule 3.10(2) of the Listing Rules that at least one of the Independent Non-Executive Directors must have appropriate professional qualifications or accounting or related financial management expertise; (iii) the Company did not meet the composition requirements of the Audit Committee under Rule 3.21 of the Listing Rules to comprise a majority of Independent Non-Executive Directors and with at least one Independent Non-Executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2); and (iv) the Company did not meet the composition requirements of the Nomination and Remuneration Committee under Rule 3.25 of the Listing Rules and Code Provision A.5.1 of the CG Code to comprise a majority of Independent Non-Executive Directors and chaired by an Independent Non-Executive Director.

However, following the appointment of Mr. Lim Chao Li as Independent Non-Executive Director, Chairman of the Nomination and Remuneration Committee and member of the Audit Committee of the Company on 14 July 2021, the Company had complied with Rules 3.10(1), 3.10(2), 3.10A, 3.21 and 3.25 of the Listing Rules and Code Provision A.5.1 of the CG Code.

DIVIDENDS

The first interim dividend of HK\$0.05 (2020: HK\$0.03) per ordinary share was paid on Wednesday, 4 August 2021. The second interim dividend of HK\$0.15 (2020: HK\$0.12) per ordinary share was declared on Tuesday, 28 December 2021 and will be payable on Friday, 25 February 2022 to shareholders of the Company whose names appear on the register of members on Friday, 28 January 2022. The Directors do not recommend the payment of a final dividend for the year (2020: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 14 March 2022 to Friday, 18 March 2022, 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, 11 March 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the year under review, the economy of Hong Kong was still adversely affected by the ongoing COVID-19 pandemic though there were signs of gradual economic recovery since the second quarter of 2021 with improved employment situation as reflected by the reduction of unemployment rate to 4.1% in November 2021 from the peak of 7.2% in February 2021. The US Federal Reserve continued the adoption of easing policy and market interest rates stayed low with adverse impact on investment return of interest-bearing assets. The stock market in Hong Kong remained volatile with increased concerns over the indebtedness of Mainland China property developers and supervision on certain industries by the Mainland China authorities.

Under the aforesaid challenging operating environment in the year under review, the Group conducted its loan business cautiously with strategic focus on secured lending segments at reasonable interest yields to contain credit risk whilst managing its funding cost of customer deposits to minimise the adverse impact on its net interest margin under the low interest rate environment. The Group continued to diversify revenue sources into fee-based businesses amidst weaker consumer sentiment and subdued corporate loan demands and will continue to pursue long-term business growth prudently with sustainable profit growth.

FINANCIAL REVIEW

Revenue and earnings

For the year ended 31 December 2021, the Group recorded a profit after tax of HK\$496.5 million, representing a growth of HK\$99.5 million or 25.1% when compared to the previous year.

The Group's basic earnings per share for 2021 was HK\$0.45. The Board declared a first interim dividend of HK\$0.05 per share in June 2021 and a second interim dividend of HK\$0.15 per share in December 2021. The Board did not recommend the payment of a final dividend, making a total dividend declared for the year of HK\$0.20 per share (2020: HK\$0.15 per share).

For the year under review, the Group's interest income decreased by HK\$203.6 million or 12.3% to HK\$1.45 billion contributed mainly from the decreases in interest income from loans and advances and investments in debt securities under the low interest rate environment; whilst total interest expense decreased by HK\$252.5 million or 60.1% to HK\$167.8 million mainly due to decrease in funding cost of customer deposits. As a result, the Group's net interest income increased by HK\$48.9 million or 4.0% to HK\$1.28 billion. Other operating income of the Group decreased by HK\$91.7 million or 28.2% to HK\$233.2 million mainly due to the lower government subsidies of HK\$1.0 million against HK\$68.9 million received in previous year and the decrease in fees and commission income from wealth management services, stockbroking and securities management of HK\$17.3 million in the year under review.

Total operating expenses (before changes in fair value of investment properties) decreased by HK\$27.5 million or 3.2% to HK\$831.1 million, mainly due to decreases in staff-related costs and marketing expenses.

Fair value of investment properties increased by HK\$9.0 million during the year under review as compared to a revaluation loss of HK\$33.4 million in the previous year.

Credit loss expenses decreased by HK\$94.8 million or 51.1% to HK\$90.8 million in 2021 as compared to 2020 mainly due to decrease in credit charge for unsecured consumer financing loans and advances with lower loan delinquencies and bankruptcy cases for the segment during the year under review.

Loan and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) decreased marginally by HK\$0.01 billion or 0.04% to HK\$26.17 billion as at 31 December 2021 from HK\$26.18 billion as at 31 December 2020. Customer deposits decreased by HK\$2.01 billion or 5.9% to HK\$32.18 billion as at 31 December 2021 from HK\$34.19 billion as at 31 December 2020.

As at 31 December 2021, the Group's total assets stood at HK\$43.53 billion.

Key financial and business performance indicators

The Group's return on equity, based on profit after tax to average equity, stood at a healthy level of 5.9% in the year under review. Due to the low interest rate environment, the Group's net interest margin was under downward pressure, but the Group implemented effective cost control and credit risk management to achieve a reasonable return in the challenging year of 2021. The Group will continue to diversify income streams whilst seeking satisfactory yields on loans and other interest-bearing assets and acquiring customer deposits at reasonable costs to maintain the sustainability of net interest margin and profitability from time to time.

The Group's cost to income ratio was maintained at a satisfactory level of 54.9% despite the increase in information system costs and compliance costs to fulfil or address increasing regulatory requirements. The Group aims to contain operating expenses but will continue to allocate adequate resources to implement digital transformation and strengthen security controls against risks of potential cyber threats.

The Group's impaired loans to total loans ratio stood at a satisfactory level of 0.90% as at 31 December 2021, indicating the loan asset quality at group level was well-managed amidst economic downturn. The Group continues to adopt prudent underwriting standards to ensure healthy level of impaired loans and to take prompt actions to pursue loans recovery with regard to problem credits.

Business performance of key subsidiaries

Public Bank (Hong Kong)

During the year under review, total loans and advances (including trade bills) of Public Bank (Hong Kong), a licensed bank, recorded an increase of HK\$0.16 billion or 0.8% to HK\$20.54 billion as at 31 December 2021 from HK\$20.38 billion as at 31 December 2020. Customer deposits (excluding deposits from a subsidiary) decreased by HK\$1.53 billion or 5.2% to HK\$27.74 billion as at 31 December 2021 from HK\$29.27 billion as at 31 December 2020. Impaired loans to total loans ratio of Public Bank (Hong Kong) increased by 0.26% to 0.84% as at 31 December 2021 from 0.58% as at 31 December 2020.

Public Bank (Hong Kong) will continue to develop and expand its retail and commercial banking businesses and its core customer base, expedite the pace of its digital transformation and develop its banking and financial services and stockbroking businesses.

Public Finance

Total loans and advances of Public Finance, a deposit-taking company, recorded a decline of HK\$233.3 million or 4.3% to HK\$5.22 billion as at 31 December 2021 from HK\$5.46 billion as at 31 December 2020. Customer deposits decreased by HK\$473.1 million or 9.2% to HK\$4.69 billion as at 31 December 2021 from HK\$5.16 billion as at 31 December 2020. Impaired loans to total loans ratio of Public Finance decreased by 0.51% to 1.18% as at 31 December 2021 from 1.69% as at 31 December 2020.

Public Finance will continue to focus on its consumer financing business and deposit-taking business, and also embark on its digital transformation.

Segmental information

The Group's businesses comprise three main segments: (i) retail and commercial banking businesses, (ii) wealth management services, stockbroking and securities management, and (iii) other businesses. For the year under review, 94.7% of the Group's operating income and 93.7% of the profit before tax were contributed by retail and commercial banking businesses. When compared to the previous year, the Group's operating income from retail and commercial banking businesses decreased by HK\$25.2 million or 1.7% to HK\$1.43 billion mainly due to the decrease in government subsidies received by the Group. Profit before tax from this segment increased by HK\$96.4 million or 20.6% to HK\$564.0 million mainly due to the decrease in credit loss expenses of unsecured consumer financing loans. The Group's operating income from wealth management services, stockbroking and securities management decreased by HK\$17.7 million or 21.2% to HK\$65.6 million. Profit before tax from this segment decreased by HK\$17.1 million or 37.5% to HK\$28.5 million during the year under review.

Group's branch network

As at 31 December 2021, Public Bank (Hong Kong) had a branch network of 32 branches in Hong Kong and 5 branches in Shenzhen in the People's Republic of China to provide a broad range of commercial and retail banking services. Public Finance had a network of 43 branches in Hong Kong to focus on its core business in personal lending. Winton Financial Limited ("Winton Financial"), another operating subsidiary of the Company which operates under a money lenders licence, had a network of 3 branches in Hong Kong to provide personal financing to its targeted customer segment. In total, the Group had a combined branch network of 83 branches as at 31 December 2021 to serve its customers.

Significant investments

The Company has a significant investment, with a value of 5% or more of the Company's total assets, in Public Bank (Hong Kong). The principal businesses of Public Bank (Hong Kong) are discussed under the "Group's branch network" of this section. The investment cost in the subsidiary amounted to HK\$6.59 billion or 70.9% of total assets of the Company, and such cost reflected the fair value of the Company's investment. Public Bank (Hong Kong)'s business strategy focuses on its loan development, deposit-taking, stockbroking and bancassurance business operations; and continues to strike a balance between pursuing business growth and maintaining sound liquidity and asset quality. Public Bank (Hong Kong) and its subsidiaries recorded a profit of HK\$476.1 million on consolidated basis, which represented a return of 7.3% in regard to the Company's investment. Dividend income received from Public Bank (Hong Kong) was HK\$210.7 million during the year under review. Further details of such investment (including the number and percentage of shares held) in Public Bank (Hong Kong) will be disclosed in the 2021 Annual Report.

Contingent liabilities and commitments

The Group had no material contingent liabilities (other than those in the normal course of its banking and finance businesses related to treasury and trade finance activities and loan commitments as disclosed in the notes to the financial statements) as at the end of the year under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the year under review. There was no material funding required for capital expenditure and its commitments. The Group did not have plans for material investments or purchases of capital assets in the near term. As at 31 December 2021, 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 2021.

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 or associates during the year under review.

The Group relies principally on its internally generated capital, customer deposits and deposits from financial institutions to fund its retail and commercial banking businesses and its consumer financing business. The Group's bank borrowings in the form of term loans denominated in Hong Kong dollars ("HKD") at floating interest rates stood at approximately HK\$1.58 billion as at the end of 2021. 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 0.18 times as at 31 December 2021, which was relatively the same as compared to the position of 31 December 2020. The bank borrowings as at 31 December 2021 had remaining maturity periods of less than one year. In the normal course of its commercial banking business, Public Bank (Hong Kong) had entered into foreign exchange swaps and forward contracts to reduce the foreign exchange rate risk exposures of the Group. Exposures to fluctuations in foreign exchange rates were minimal. There were also no foreign currency 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 22.6% and 23.3% respectively as at 31 December 2021.

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

Asset quality and credit management

The Group's impaired loans to total loans ratio increased by 0.05% to 0.90% as at 31 December 2021 from 0.85% as at 31 December 2020. The Group will continue to manage credit risk cautiously and undertake prudent yet flexible business development strategies to strike a balance between business/income growth and prudent risk management.

The direct exposures to 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. Despite COVID-19 pandemic, staff enrolled in external training courses, seminars, professional and technical courses via electronic means 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 participated in social/charitable activities organised by the Group/non-profit making organisations to promote team spirit and social responsibility to the community.

As at 31 December 2021, the Group's staff force stood at 1,260 employees with the Group's total staff related costs amounted to HK\$525.7 million.

PROSPECTS

The economies of Hong Kong and Mainland China are anticipated to continue on a gradual recovery path in year 2022, but the prospects remain uncertain, depending on the development of pandemic and geopolitical risk factors. The risk appetites for corporate investments/business expansion and individuals' private consumption are expected to remain conservative in the near term with loan growth momentum in Hong Kong and Mainland China being constrained, but the situation may be improved when the Mainland China borders are re-opened to Hong Kong travellers.

As a more optimistic view toward the US economic outlook and higher inflation rate are projected, the US Federal Reserve is scaling down its asset purchase programme and upward adjustment of US dollar interest rates in year 2022 is highly probable. Nevertheless, HKD interest rates are anticipated to remain at a relative low level in year 2022 taking into account the ample market liquidity with high aggregate balance of banks kept with the HKMA and net interest margin will continue to be under pressure in year 2022. Competition in the banking and financing industry in Hong Kong is also expected to intensify with the operations of virtual banks and the usage of technology with higher transparency of product pricing in the industry, which will continue to exert pressure on the pricing of banking and financing products. The increases 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 loan growth at reasonable yields and manage its funding cost to grow net interest income. 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 businesses and its consumer financing business through its extensive branch network of Public Bank (Hong Kong), Public Finance and Winton Financial, supporting its growth in loan developments, deposit-takings and fee-based businesses, and implementing appropriate marketing strategies at reasonable costs. The Group will continue to optimise and refine the existing products and services in the near term to grow its retail and commercial lending businesses and consumer financing business. Moving forward, the Group will also allocate more resources to drive the digitalisation process of its financial services and business growth from electronic channels.

The Group will stay vigilant of the uncertainties on the road to recovery ahead and strive to expand its banking and financing businesses with disciplined cost control and prudent risk management in 2022. 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. Lim Chao Li, and two Non-Executive Directors, namely Mr. Lai Wan and Mr. Quah Poh Keat. The annual results for the year ended 31 December 2021 as set out in this announcement have been reviewed by the Audit Committee.

PUBLICATION OF 2021 ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement of the Group for the year ended 31 December 2021 is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.publicfinancial.com.hk. The 2021 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 2022.

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, 19 January 2022

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