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## ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 with comparative figures as follows:

### CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2018 HK\$'000	2017 HK\$'000
Interest income	8	<b>1,881,356</b>	1,760,222
Interest expense	8	<b>(478,913)</b>	(386,590)
<b>NET INTEREST INCOME</b>		<b>1,402,443</b>	1,373,632
Other operating income	9	<b>231,054</b>	226,908
<b>OPERATING INCOME</b>		<b>1,633,497</b>	1,600,540
Operating expenses	10	<b>(870,928)</b>	(852,440)
Changes in fair value of investment properties		<b>21,679</b>	14,341
<b>OPERATING PROFIT BEFORE CREDIT LOSS</b>			
<b>EXPENSES/IMPAIRMENT ALLOWANCES</b>		<b>784,248</b>	762,441
Credit loss expenses/impairment allowances	11	<b>(162,046)</b>	(146,093)
<b>OPERATING PROFIT AFTER CREDIT LOSS</b>			
<b>EXPENSES/IMPAIRMENT ALLOWANCES</b>		<b>622,202</b>	616,348
Share of profit of a joint venture		<b>—</b>	102
<b>PROFIT BEFORE TAX</b>		<b>622,202</b>	616,450
Tax	12	<b>(111,724)</b>	(112,936)
<b>PROFIT FOR THE YEAR</b>		<b>510,478</b>	503,514

\* For identification purpose only

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
	<i>Notes</i>	HK\$'000
<b>ATTRIBUTABLE TO:</b>		
Owners of the Company		<b>510,478</b>
		<b>503,514</b>
<b>EARNINGS PER SHARE (HK\$)</b>		
Basic	<i>14</i>	<b>0.465</b>
		<b>0.459</b>
Diluted		<b>0.465</b>
		<b>0.459</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2018 HK\$'000	2017 HK\$'000
<b>PROFIT FOR THE YEAR</b>	<b>510,478</b>	503,514
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations, net of tax	(46,826)	68,995
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>463,652</b>	<b>572,509</b>
<b>ATTRIBUTABLE TO:</b>		
Owners of the Company	<b>463,652</b>	<b>572,509</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December 2018 Notes	31 December 2017 HK\$'000
<b>ASSETS</b>			
Cash and short term placements		<b>3,953,773</b>	4,872,533
Placements with banks and financial institutions maturing after one month but not more than twelve months		<b>1,556,342</b>	1,514,095
Derivative financial instruments		<b>2,541</b>	4,317
Loans and advances and receivables	15	<b>29,877,579</b>	29,582,660
Available-for-sale financial assets		—	6,804
Equity investments at fair value through other comprehensive income		<b>6,804</b>	—
Held-to-maturity investments at amortised cost	16	—	5,671,749
Held-to-collect debt securities at amortised cost	16	<b>6,202,949</b>	—
Investment properties		<b>345,715</b>	328,739
Property and equipment		<b>145,090</b>	132,579
Land held under finance leases		<b>676,073</b>	634,368
Interest in a joint venture		—	—
Deferred tax assets		<b>41,338</b>	24,526
Tax recoverable		<b>1,222</b>	830
Goodwill	17	<b>2,774,403</b>	2,774,403
Intangible assets		<b>718</b>	718
Other assets		<b>166,343</b>	228,398
<b>TOTAL ASSETS</b>		<b>45,750,890</b>	<b>45,776,719</b>
<b>EQUITY AND LIABILITIES</b>			
<b>LIABILITIES</b>			
Deposits and balances of banks and other financial institutions at amortised cost		<b>572,712</b>	1,123,792
Derivative financial instruments		<b>7,275</b>	1,696
Customer deposits at amortised cost		<b>35,284,322</b>	33,984,095
Certificates of deposit issued at amortised cost		—	753,293
Dividends payable		<b>186,646</b>	175,667
Unsecured bank loans at amortised cost		<b>1,444,614</b>	1,581,852
Current tax payable		<b>15,298</b>	38,823
Deferred tax liabilities		<b>36,350</b>	33,579
Other liabilities		<b>455,863</b>	462,671
<b>TOTAL LIABILITIES</b>		<b>38,003,080</b>	<b>38,155,468</b>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>			
Issued capital		<b>109,792</b>	109,792
Reserves	18	<b>7,638,018</b>	7,511,459
<b>TOTAL EQUITY</b>		<b>7,747,810</b>	<b>7,621,251</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>45,750,890</b>	<b>45,776,719</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Year ended 31 December	
	Notes	2018 HK\$'000	2017 HK\$'000
<b>TOTAL EQUITY</b>			
As at 1 January (Reported)		<b>7,621,251</b>	7,279,305
Impact of adopting HKFRS 9	5	<b>(95,551)</b>	–
Restated opening balance under HKFRS 9		<b>7,525,700</b>	7,279,305
Profit for the year		<b>510,478</b>	503,514
Other comprehensive income in translation reserve		<b>(46,826)</b>	68,995
Total comprehensive income for the year		<b>463,652</b>	572,509
Dividends declared on shares	13(a)	<b>(241,542)</b>	(230,563)
Balance at the end of the year		<b>7,747,810</b>	<b>7,621,251</b>

## **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 2018. Certain financial information in this announcement is extracted from the statutory financial statements for the year ended 31 December 2018, 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 2019.

The figures in this announcement of the results of the Group for the year ended 31 December 2018 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 2018.

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

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

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

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

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

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

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

The subsidiaries consolidated for accounting purposes are Public Bank (Hong Kong) Limited ("Public Bank (Hong Kong)"), Public Finance Limited ("Public Finance"), Winton (B.V.I.) Limited and their subsidiaries and a joint venture which was dissolved on 8 February 2018.

#### **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 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 2.5%, 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 2018. The Group has adopted the following new and revised standards for the first time for the current year's financial statements:

• Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
• Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
• HKFRS 9	<i>Financial Instruments</i>
• HKFRS 15	<i>Revenue from Contracts with Customers</i>
• Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
• Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28
• Amendments to HKAS 40	<i>Transfers of Investment Property</i>
• HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>

Except for the amendments included in Amendments to HKFRS 2, Amendments to HKFRS 4 and Annual Improvements 2014-2016 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.

The Group has adopted HKFRS 9 on 1 January 2018. HKFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting, which have resulted in the following significant changes in accounting policies.

The Group has not restated comparative information for 2017 for financial instruments in the scope of HKFRS 9. Therefore, the comparative information for 2017 is reported under HKAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of HKFRS 9 have been recognised directly in retained earnings, provisions/impairment allowances, deferred tax assets and other relevant statement of financial position items as of 1 January 2018.

With the exception of accounts receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs under HKFRS 9.

Under HKFRS 9, debt instruments are subsequently measured at FVPL, amortised cost, or FVOCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's financial assets are as follows:

- a) Debt instruments at amortised cost for financial assets – that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's cash and placements with banks and financial institutions, loans and advances and receivables, held-to-collect debt securities at amortised cost and other assets.
- b) Equity investments at FVOCI – with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity investments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity investments as equity investments at FVOCI. Equity investments at FVOCI are not subject to an impairment assessment under HKFRS 9. Under HKAS 39, the Group's unquoted equity investments were classified as available-for-sale financial assets.
- c) Financial assets at FVPL – that include derivative instruments and debt instruments of which the cash flow characteristics fail the SPPI criterion or they are not held within a business model with the objective either to collect contractual cash flows, or to both collect contractual cash flows and sell; and equity investments which the Group has not irrevocably elected, at initial recognition or transition, to classify as FVOCI. This category includes derivative financial instruments held by the Group.
- d) Debt instruments at FVOCI – with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. The Group does not have any financial assets classified in this category.

The assessment of the Group's business model was made as of the date of initial application, i.e. 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether the contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the income statement.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not been changed from that required by HKAS 39.

#### ***Changes to the provisions/impairment allowances calculation***

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. HKFRS 9 requires the Group to record provisions/impairment allowances for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowances are based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired, the allowances are based on the change in the ECLs over the life of the asset.

For accounts receivable, the Group has applied the standard simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic conditions.

For loans and advances, trade bills, accrued interest, loan commitments, financial guarantee contracts, cash and placements with banks and financial institutions, held-to-collect debt securities at amortised cost or other debt instruments at amortised cost for financial assets, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowances will be based on the lifetime ECL.

In all cases, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of HKFRS 9 resulted in an increase in impairment allowances of the Group's debt financial assets. The increase in allowances resulted in an adjustment to retained profits upon transition.

The transition effects arising from the adoption of HKFRS 9 are presented below.

The following tables analyse the impact, net of tax, of transition to HKFRS 9 on the statement of financial position of the Group.

	<b>1 January 2018 HK\$'000</b>
Cash and short term placements	
Closing balance under HKAS 39 at 31 December 2017	4,872,533
– Recognition of expected credit loss under HKFRS 9	<u>(470)</u>
Opening balance under HKFRS 9 at 1 January 2018	<b>4,872,063</b>
Placements with banks and financial institutions	
Closing balance under HKAS 39 at 31 December 2017	1,514,095
– Recognition of expected credit loss under HKFRS 9	<u>(151)</u>
Opening balance under HKFRS 9 at 1 January 2018	<b>1,513,944</b>
Held-to-collect debt securities at amortised cost	
Closing balance under HKAS 39 at 31 December 2017	5,671,749
– Reclassification under HKFRS 9	<u>(570)</u>
– Recognition of expected credit loss under HKFRS 9	<u>(570)</u>
Opening balance under HKFRS 9 at 1 January 2018	<b>5,671,179</b>
Equity investments at fair value through other comprehensive income	
Closing balance under HKAS 39 at 31 December 2017	6,804
– Reclassification under HKFRS 9	<u>–</u>
Opening balance under HKFRS 9 at 1 January 2018	<b>6,804</b>
Loans and advances and receivables	
Closing balance under HKAS 39 at 31 December 2017	29,582,660
– Recognition of expected credit loss under HKFRS 9	<u>(113,282)</u>
Opening balance under HKFRS 9 at 1 January 2018	<b>29,469,378</b>
Deferred tax assets	
Closing balance under HKAS 39 at 31 December 2017	24,526
– Deferred tax effect arising from the recognition of expected credit loss under HKFRS 9	<u>18,922</u>
Opening balance under HKFRS 9 at 1 January 2018	<b>43,448</b>
Regulatory reserves	
Closing balance under HKAS 39 at 31 December 2017	439,762
– Transfer to retained profits	<u>(127,143)</u>
Opening balance under HKFRS 9 at 1 January 2018	<b>312,619</b>
Retained profits	
Closing balance under HKAS 39 at 31 December 2017	2,902,461
– Transfer from regulatory reserves	<u>127,143</u>
– Recognition of expected credit loss under HKFRS 9	<u>(114,473)</u>
– Deferred tax effect arising from the recognition of expected credit loss under HKFRS 9	<u>18,922</u>
Opening balance under HKFRS 9 at 1 January 2018	<b>2,934,053</b>

Statement of Financial Position	31 December		Provisions/ Impairment allowances HK\$'000	1 January 2018 HK\$'000
	2017 HK\$'000	Reclassification HK\$'000		
<b>Assets</b>				
Cash and short term placements	4,872,533	–	(470)	<b>4,872,063</b>
Placements with banks and financial institutions maturing after one month but not more than twelve months	1,514,095	–	(151)	<b>1,513,944</b>
Derivative financial instruments	4,317	–	–	<b>4,317</b>
Loans and advances and receivables	29,582,660	–	(113,282)	<b>29,469,378</b>
Available-for-sale financial assets	6,804	(6,804)	–	–
Equity investments at fair value through other comprehensive income	–	6,804	–	<b>6,804</b>
Held-to-maturity investments at amortised cost	5,671,749	(5,671,749)	–	–
Held-to-collect debt securities at amortised cost	–	<b>5,671,749</b>	(570)	<b>5,671,179</b>
Investment properties	328,739	–	–	<b>328,739</b>
Property and equipment	132,579	–	–	<b>132,579</b>
Land held under finance leases	634,368	–	–	<b>634,368</b>
Deferred tax assets	24,526	–	<b>18,922</b>	<b>43,448</b>
Tax recoverable	830	–	–	<b>830</b>
Goodwill	2,774,403	–	–	<b>2,774,403</b>
Intangible assets	718	–	–	<b>718</b>
Other assets	228,398	–	–	<b>228,398</b>
<b>Total Assets</b>	<b>45,776,719</b>	<b>–</b>	<b>(95,551)</b>	<b>45,681,168</b>

Statement of Financial Position	31 December 2017 HK\$'000	Provisions/ Impairment allowances		1 January 2018 HK\$'000		
			HK\$'000			
<b>Equity and Liabilities</b>						
<b>Liabilities</b>						
Deposits and balances of banks and other financial institutions at amortised cost	1,123,792	–	<b>1,123,792</b>			
Derivative financial instruments	1,696	–	<b>1,696</b>			
Customer deposits at amortised cost	33,984,095	–	<b>33,984,095</b>			
Certificates of deposit issued at amortised cost	753,293	–	<b>753,293</b>			
Dividends payable	175,667	–	<b>175,667</b>			
Unsecured bank loans at amortised cost	1,581,852	–	<b>1,581,852</b>			
Current tax payable	38,823	–	<b>38,823</b>			
Deferred tax liabilities	33,579	–	<b>33,579</b>			
Other liabilities	462,671	–	<b>462,671</b>			
<b>Total Liabilities</b>	<b>38,155,468</b>	–	<b>38,155,468</b>			
<b>Equity attributable to owners of the Company</b>						
Issued capital	109,792	–	<b>109,792</b>			
Reserves	7,511,459	(95,551)	<b>7,415,908</b>			
<b>Total Equity</b>	<b>7,621,251</b>	(95,551)	<b>7,525,700</b>			
<b>Total Equity and Liabilities</b>	<b>45,776,719</b>	<b>(95,551)</b>	<b>45,681,168</b>			

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The adoption of HKFRS 15 does not have any material impact on the Group's consolidated financial statements.

Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

HK(IFRIC)-Int 22 clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expenses or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions of each payment or receipt of advance consideration. The interpretation does not have any impact on the Group's consolidated 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 9 *Prepayment Features with Negative Compensation<sup>1</sup>*
- HKFRS 16 *Leases<sup>1</sup>*
- HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments<sup>1</sup>*

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2019

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

The HKICPA issued two amendments to HKFRS 9 in November 2017 and December 2017 respectively. The first amendment clarifies that prepayable financial assets with negative compensation can be measured at amortised cost or at FVOCI if specified conditions are met instead of at FVPL.

The second amendment clarifies, in the Basis for Conclusions, the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in derecognition. HKFRS 9 requires an entity to recalculate the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. Any adjustments to the amortised cost of the financial liability would be recognised in profit or loss at the date of the modification or exchange. If entities apply a different accounting treatment for modifications of financial liabilities under HKAS 39, they are required to apply the amendments retrospectively on transition to HKFRS 9.

The amendments are effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement Contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments.

Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. As at 31 December 2018, the Group had non-cancellable operating lease commitments of HK\$113,913,000 as set out in note 19(b) to the financial statements. The interest expense on the lease liability and the depreciation expense on the right-of-use asset under HKFRS 16 will replace the rental charge under HKAS 17. The operating lease commitments shown as off-balance sheet item will be replaced by "right-of-use asset" and "lease liability" in the statement of financial position of the Group.

Upon the initial adoption of HKFRS 16, the opening balances of right-of-use assets and the corresponding lease liabilities will be approximately HK\$140 million and HK\$147 million respectively, taking into account the effects of discounting, as at 1 January 2019. The impact on retained earnings on 1 January 2019 will be approximately HK\$7 million.

Other than the above, the Group does not anticipate that the application of this standard will have material impact on the consolidated financial statements of the Group.

HK(IFRIC)-Int 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of HKAS 12 and 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 the following:

- (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 (tax losses), tax bases, unused tax losses, unused tax credits and tax rates; and
- (iv) how an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply this interpretation from its effective date. The Group expects that applying the interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the interpretation on a timely basis.

## **6. SIGNIFICANT ACCOUNTING ESTIMATES**

### **Estimation uncertainty**

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

## **Impairment allowances on loans and advances and receivables**

The measurement of impairment losses under both HKFRS 9 and HKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

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

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

## **Impairment of goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the 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 2018 and 31 December 2017 was HK\$2,774,403,000, of which HK\$832,321,000 was attributed to Public Bank (Hong Kong) and HK\$1,942,082,000 was attributed to Public Finance. Further details are set out in note 17 to the financial statements.

## 7. SEGMENT INFORMATION

### **Operating segment information**

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

- retail and commercial banking businesses segment mainly comprises the provision of deposit account services, the extension of mortgages and consumer lending, hire purchase and leasing, provision of financing to purchasers of licensed public vehicles such as taxis and public light buses, provision of services and financing activities for customers in trading, manufacturing and various business sectors, foreign exchange activities, centralised cash management for deposit taking and lending, interest rate risk management and the overall funding management of the Group;
- wealth management services, stockbroking and securities management segment comprises management of investments in debt securities and equities, securities dealing and receipt of commission income and the provision of authorised wealth management products and services; and
- other businesses segment comprises taxi trading, leasing of taxis and letting of investment properties.

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

The following table discloses the revenue and profit information for operating segments for the years ended 31 December 2018 and 31 December 2017.

	Wealth management services, stockbroking						Eliminated on consolidation		Total	
	Retail and commercial banking businesses		and securities management		Other businesses				2018	2017
	2018	2017	2018	2017	2018	2017	2018	2017	HK\$'000	HK\$'000
<b>Segment revenue</b>										
External:										
Net interest income/(expense)	1,402,681	1,373,860	(238)	(228)	-	-	-	-	1,402,443	1,373,632
Other operating income:										
Fees and commission income	152,254	147,702	46,334	44,193	354	453	-	-	198,942	192,348
Others	13,609	15,931	(8)	20	18,511	18,609	-	-	32,112	34,560
Inter-segment transactions:										
Fees and commission income	-	-	-	-	-	9	-	(9)	-	-
Operating income	<u>1,568,544</u>	<u>1,537,493</u>	<u>46,088</u>	<u>43,985</u>	<u>18,865</u>	<u>19,071</u>	<u>-</u>	<u>(9)</u>	<u>1,633,497</u>	<u>1,600,540</u>
Operating profit after credit loss expenses/impairment allowance	<u>572,627</u>	<u>572,302</u>	<u>22,855</u>	<u>21,459</u>	<u>26,720</u>	<u>22,587</u>	<u>-</u>	<u>-</u>	<u>622,202</u>	<u>616,348</u>
Share of profit of a joint venture									-	102
<b>Profit before tax</b>									<b>622,202</b>	<b>616,450</b>
Tax									<u>(111,724)</u>	<u>(112,936)</u>
<b>Profit for the year</b>									<b>510,478</b>	<b>503,514</b>
<b>Other segment information</b>										
Depreciation of property and equipment and land held under finance leases	(32,349)	(29,367)	-	-	-	-	-	-	(32,349)	(29,367)
Changes in fair value of investment properties	-	-	-	-	21,679	14,341	-	-	21,679	14,341
Credit loss expenses/impairment allowances	(162,046)	(146,093)	-	-	-	-	-	-	(162,046)	(146,093)
Net gains/(losses) on disposal of property and equipment	<u>4</u>	<u>(165)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4</u>	<u>(165)</u>

The following table discloses certain asset and liability information regarding operating segments as at 31 December 2018 and 31 December 2017.

	Wealth management services, stockbroking						Eliminated on consolidation		Total	
	Retail and commercial banking businesses		and securities management		Other businesses				2018	2017
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets other than intangible assets and goodwill	<b>42,277,363</b>	42,275,084	<b>309,555</b>	370,729	<b>346,291</b>	330,429	-	-	<b>42,933,209</b>	42,976,242
Intangible assets	-	-	<b>718</b>	718	-	-	-	-	<b>718</b>	718
Goodwill	<b>2,774,403</b>	2,774,403	-	-	-	-	-	-	<b>2,774,403</b>	2,774,403
Segment assets	<b>45,051,766</b>	45,049,487	<b>310,273</b>	371,447	<b>346,291</b>	330,429	-	-	<b>45,708,330</b>	45,751,363
Unallocated assets:										
Deferred tax assets and tax recoverable							<b>42,560</b>	<b>25,356</b>		
<b>Total assets</b>							<b>45,750,890</b>	<b>45,776,719</b>		
Segment liabilities	<b>37,667,853</b>	37,740,061	<b>89,378</b>	159,502	<b>7,555</b>	7,836	-	-	<b>37,764,786</b>	37,907,399
Unallocated liabilities:										
Deferred tax liabilities and tax payable							<b>51,648</b>	<b>72,402</b>		
Dividends payable							<b>186,646</b>	<b>175,667</b>		
<b>Total liabilities</b>							<b>38,003,080</b>	<b>38,155,468</b>		
<b>Other segment information</b>										
Additions to non-current assets										
- capital expenditure	<b>81,876</b>	26,136	-	-	-	-	-	-	<b>81,876</b>	26,136

## 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 2018 and 31 December 2017.

	2018 HK\$'000	2017 HK\$'000
Segment revenue from external customers:		
Hong Kong	1,501,511	1,475,325
Mainland China	131,986	125,215
	<hr/> <b>1,633,497</b>	<hr/> <b>1,600,540</b>

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

The following table discloses the non-current asset information for geographical segments as at 31 December 2018 and 31 December 2017.

	2018 HK\$'000	2017 HK\$'000
Non-current assets:		
Hong Kong	3,925,618	3,853,822
Mainland China	16,381	16,985
	<hr/> <b>3,941,999</b>	<hr/> <b>3,870,807</b>

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

## Operating income or revenue from major customers

Operating income or revenue from transactions with each external customer amounted to less than 10% (2017: less than 10%) of the Group's total operating income or revenue.

## 8. INTEREST INCOME AND EXPENSE

	2018 HK\$'000	2017 HK\$'000
Interest income from:		
Loans and advances and receivables	1,654,297	1,558,178
Short term placements and placements with banks	125,236	120,597
Held-to-maturity investments at amortised cost	–	81,447
Held-to-collect debt securities at amortised cost	101,823	–
	<hr/> <b>1,881,356</b>	<hr/> <b>1,760,222</b>
Interest expense on:		
Deposits from banks and financial institutions	10,003	14,450
Deposits from customers	425,878	343,154
Bank loans	43,032	28,986
	<hr/> <b>478,913</b>	<hr/> <b>386,590</b>

Interest income and interest expense for the year ended 31 December 2018, calculated using the effective interest method for financial assets and financial liabilities which are not designated at FVPL, amounted to HK\$1,881,356,000 and HK\$478,913,000 (2017: HK\$1,760,222,000 and HK\$386,590,000) respectively. Interest income on the impaired loans and advances for the year ended 31 December 2018 amounted to HK\$10,950,000 (2017: HK\$9,510,000).

## 9. OTHER OPERATING INCOME

	2018 HK\$'000	2017 HK\$'000
Fees and commission income:		
Retail and commercial banking and other businesses	153,971	149,510
Wealth management services, stockbroking and securities management	46,334	44,193
	<b>200,305</b>	193,703
	<b>(1,363)</b>	(1,355)
Less: Fees and commission expenses	<b>198,942</b>	192,348
Net fees and commission income		
Gross rental income	18,287	18,186
Less: Direct operating expenses	(81)	(77)
Net rental income	<b>18,206</b>	18,109
Gains less losses arising from dealing in foreign currencies	16,141	10,883
Net (losses)/gains on derivative financial instruments	(4,734)	2,621
	<b>11,407</b>	13,504
Net gains/(losses) on disposal of property and equipment	4	(165)
Dividend income from listed investments	118	83
Dividend income from unlisted investments	700	700
Others	<b>1,677</b>	2,329
	<b>231,054</b>	226,908

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

There were no net gains or losses arising from available-for-sale financial assets, held-to-maturity investments at amortised cost, loans and advances and receivables, financial assets and liabilities measured at amortised cost and financial assets and liabilities designated at FVPL for the year ended 31 December 2017. There were no net gains or losses arising from equity investments at FVOCI, held-to-collect debt securities at amortised cost, loans and advances and receivables, financial assets and liabilities measured at amortised cost and financial assets and liabilities designated at FVPL for the year ended 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

	2018 HK\$'000	2017 HK\$'000
Staff costs:		
Salaries and other staff costs	<b>522,074</b>	508,195
Pension contributions	<b>24,261</b>	22,135
Less: Forfeited contributions	<b>(35)</b>	(41)
Net contribution to retirement benefit schemes	<b>24,226</b>	22,094
	<b>546,300</b>	530,289
Other operating expenses:		
Operating lease rentals on leasehold buildings	<b>67,139</b>	68,253
Depreciation of property and equipment and land held under finance leases	<b>32,349</b>	29,367
Auditors' remuneration	<b>4,263</b>	4,289
Administrative and general expenses	<b>78,293</b>	77,862
Others	<b>142,584</b>	142,380
Operating expenses before changes in fair value of investment properties	<b>870,928</b>	852,440

As at 31 December 2018 and 31 December 2017, 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 2018 and 31 December 2017 arose in respect of staff who left the schemes during the years.

## 11. CREDIT LOSS EXPENSES/IMPAIRMENT ALLOWANCES

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

	2018			
	12-month expected credit loss (Stage 1) HK\$'000	Lifetime expected credit loss not credit impaired (Stage 2) HK\$'000	Lifetime expected credit loss credit impaired (Stage 3) HK\$'000	Total HK\$'000
Net charge for/(write-back of) credit loss expenses:				
– loans and advances	2,216	(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)
	<b>2,107</b>	<b>(3,479)</b>	<b>163,418</b>	<b>162,046</b>
Net charge for/(write-back of) impairment losses and allowances:				
– loans and advances	150,503	(2,083)	148,420	
– trade bills, accrued interest and other receivables	(2,047)	(280)	(2,327)	
	<b>148,456</b>	<b>(2,363)</b>	<b>146,093</b>	
Of which:				
– new impairment losses and allowances (including any amount directly written off during the year)			304,192	
– releases and recoveries			(158,099)	
Net charge to the consolidated income statement			<b>146,093</b>	

## 12. TAX

	2018 HK\$'000	2017 HK\$'000
Current tax charge:		
Hong Kong	84,661	81,532
Overseas	23,964	25,148
(Over)/Under-provision in prior years	(500)	426
Deferred tax charge, net	3,599	5,830
	<b>111,724</b>	<b>112,936</b>

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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, its subsidiaries and a joint venture are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. statutory tax rates) to the effective tax rates, are as follows:

	2018					
	Hong Kong HK\$'000	%	Mainland China HK\$'000	%	Total HK\$'000	%
Profit before tax	<b>520,817</b>		<b>101,385</b>		<b>622,202</b>	
Tax at the applicable tax rate	85,936	16.5	25,346	25.0	111,282	17.9
Estimated tax losses from previous periods utilised	-	-	-	-	-	-
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	<b>86,377</b>	<b>16.6</b>	<b>25,347</b>	<b>25.0</b>	<b>111,724</b>	<b>18.0</b>

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>509,548</u>		<u>106,902</u>		<u>616,450</u>	
Tax at the applicable tax rate	84,075	16.5	26,726	25.0	110,801	18.0
Estimated tax losses from previous periods utilised	(28)	–	–	–	(28)	–
Estimated tax losses not recognised	–	–	–	–	–	–
Estimated tax effect of net expenses/(income) that are not deductible/(taxable)	2,081	0.4	(344)	(0.3)	1,737	0.3
Adjustments in respect of current tax of previous periods	–	–	426	0.4	426	0.1
Tax charge at the Group's effective rate	<u>86,128</u>	<u>16.9</u>	<u>26,808</u>	<u>25.1</u>	<u>112,936</u>	<u>18.4</u>

### 13. DIVIDENDS

#### (a) Dividends attributable during the year

	2018 HK\$ per ordinary share	2017 HK\$ per ordinary share	2018 HK\$'000	2017 HK\$'000
First interim dividend declared and paid	<b>0.05</b>	0.05	<b>54,896</b>	54,896
Second interim dividend declared	<b>0.17</b>	0.16	<b>186,646</b>	175,667
	<b><u>0.22</u></b>	<u>0.21</u>	<b><u>241,542</u></b>	<u>230,563</u>

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

	2018 HK\$ per ordinary share	2017 HK\$ per ordinary share	2018 HK\$'000	2017 HK\$'000
Second interim dividend in respect of the previous year	<b>0.16</b>	0.13	<b>175,667</b>	142,729

## 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\$510,478,000 (2017: HK\$503,514,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2017: 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 2018 and 31 December 2017.

## 15. LOANS AND ADVANCES AND RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
Loans and advances to customers	<b>29,945,241</b>	29,530,282
Trade bills	<b>29,724</b>	33,958
	<hr/>	<hr/>
Loans and advances, and trade bills	<b>29,974,965</b>	29,564,240
Accrued interest	<b>78,371</b>	80,419
	<hr/>	<hr/>
Other receivables	<b>30,053,336</b>	29,644,659
	<b>18,819</b>	22,457
	<hr/>	<hr/>
Gross loans and advances and receivables	<b>30,072,155</b>	29,667,116
	<hr/>	<hr/>
Less: Provisions/impairment allowances*		
– specifically assessed	<b>(56,106)</b>	(74,418)
– collectively assessed	<b>(138,470)</b>	(10,038)
	<hr/>	<hr/>
	<b>(194,576)</b>	(84,456)
	<hr/>	<hr/>
Loans and advances and receivables	<b>29,877,579</b>	29,582,660
	<hr/>	<hr/>

Over 90% (31 December 2017: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (31 December 2017: 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 provisions on off-balance sheet credit exposures.

Loans and advances and receivables are summarised as follows:

	2018 HK\$'000	2017 HK\$'000
Neither past due nor impaired loans and advances and receivables	<b>29,424,485</b>	28,954,148
Past due but not impaired loans and advances and receivables	<b>449,145</b>	555,884
Credit impaired loans and advances	<b>195,687</b>	154,024
Credit impaired receivables	<b>2,838</b>	3,060
 Gross loans and advances and receivables	 <b>30,072,155</b>	 29,667,116

About 61% (31 December 2017: 62%) 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**

	2018 Gross amount HK\$'000	Percentage of total loans and advances %	2017 Gross amount HK\$'000	Percentage of total loans and advances %
 Loans and advances overdue for:				
Six months or less but over three months	93,214	0.31	56,869	0.19
One year or less but over six months	12,453	0.04	4,158	0.02
Over one year	4,424	0.02	32,630	0.11
 Loans and advances overdue for more than three months	110,091	0.37	93,657	0.32
 Rescheduled loans and advances overdue for three months or less	67,162	0.22	47,478	0.16
 Impaired loans and advances overdue for three months or less	18,434	0.06	12,889	0.04
 Total overdue and impaired loans and advances	<b>195,687</b>	<b>0.65</b>	<b>154,024</b>	<b>0.52</b>

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

	<b>2018</b> <b>HK\$'000</b>	<b>2017</b> <b>HK\$'000</b>
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	1,647	117
One year or less but over six months	472	152
Over one year	<u>288</u>	<u>2,545</u>
Trade bills, accrued interest and other receivables overdue for more than three months	<b>2,407</b>	2,814
Impaired trade bills, accrued interest and other receivables overdue for three months or less	<b>431</b>	<b>246</b>
Total overdue and impaired trade bills, accrued interest and other receivables	<b><u>2,838</u></b>	<b><u>3,060</u></b>

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**

	2018			2017		
	Hong Kong	Mainland China	Total	Hong Kong	Mainland China	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>(i) Analysis of overdue loans and advances and receivables</b>						
Loans and advances and receivables overdue for more than three months	83,834	28,664	112,498	82,466	14,005	96,471
Specific provisions based on lifetime expected credit loss/individual impairment allowances	40,108	3	40,111	45,398	–	45,398
Collective impairment allowances	N/A	N/A	N/A	–	1	1
Current market value and fair value of collateral			118,970			48,444
<b>(ii) Analysis of impaired loans and advances and receivables</b>						
Impaired loans and advances and receivables	161,622	36,903	198,525	139,291	17,793	157,084
Specific provisions based on lifetime expected credit loss/individual impairment allowances	56,102	4	56,106	74,418	–	74,418
Collective impairment allowances	N/A	N/A	N/A	1	2	3
Current market value and fair value of collateral			157,257			70,993

Over 90% (31 December 2017: 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:

	2018 HK\$'000	2017 HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	<u>118,970</u>	<u>48,444</u>
Covered portion of overdue loans and advances	<u>58,172</u>	<u>24,740</u>
Uncovered portion of overdue loans and advances	<u>51,919</u>	<u>68,917</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 2018, the total value of repossessed assets of the Group amounted to HK\$33,160,000 (31 December 2017: HK\$12,440,000).

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

	2018 Gross amount HK\$'000	Percentage of total loans and advances %	2017 Gross amount HK\$'000	Percentage of total loans and advances %
Loans and advances overdue for three months or less	<u>446,235</u>	<u>1.49</u>	<u>553,371</u>	<u>1.87</u>
Trade bills, accrued interest and other receivables overdue for three months or less	<u>2,910</u>	<u>—</u>	<u>2,513</u>	<u>—</u>

(f) **Provisions/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:

	2018			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
<b>Gross loans and advances and receivables as at 1 January 2018</b>				
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)
<b>As at 31 December 2018</b>	<b>29,701,281</b>	<b>172,349</b>	<b>198,525</b>	<b>30,072,155</b>
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
<b>29,701,281</b>	<b>172,349</b>	<b>198,525</b>	<b>30,072,155</b>	

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:

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

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

	Note	2018			Total HK\$'000
		Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
As at 31 December 2017 (Reported)					84,456
Impact of adopting HKFRS 9	5				113,282
Restated opening balance under HKFRS 9 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		<b>108,901</b>	<b>29,569</b>	<b>56,106</b>	<b>194,576</b>
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
		<b>108,901</b>	<b>29,569</b>	<b>56,106</b>	<b>194,576</b>

The movements in impairment losses and allowances on loans and advances and receivables are as follows:

	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000	2017 Total HK\$'000
As at 1 January 2017	121,272	12,357	133,629
Amounts written off	(330,339)	–	(330,339)
Impairment losses and allowances charged to the consolidated income statement	302,931	1,261	304,192
Impairment losses and allowances released to the consolidated income statement	(154,475)	(3,624)	(158,099)
Net charge/(release) of impairment losses and allowances to the consolidated income statement	148,456	(2,363)	146,093
Loans and advances and receivables recovered	134,864	–	134,864
Exchange difference	165	44	209
As at 31 December 2017	<u>74,418</u>	<u>10,038</u>	<u>84,456</u>
Deducted from:			
Loans and advances	74,108	9,931	84,039
Trade bills, accrued interest and other receivables	310	107	417
	<u>74,418</u>	<u>10,038</u>	<u>84,456</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:

	2018 Minimum lease payments HK\$'000	2017 HK\$'000	2018 Present value of minimum lease payments HK\$'000	2017 HK\$'000
<b>Amounts receivable under finance leases:</b>				
Within one year	<b>405,397</b>	368,156	<b>284,240</b>	270,373
In the second to fifth years, inclusive	<b>1,213,656</b>	1,103,310	<b>839,341</b>	779,899
Over five years	<b>4,296,324</b>	4,009,209	<b>3,525,992</b>	3,336,063
	<b>5,915,377</b>	5,480,675	<b>4,649,573</b>	4,386,335
Less: Unearned finance income	<b>(1,265,804)</b>	(1,094,340)		
Present value of minimum lease payments receivable	<b>4,649,573</b>	4,386,335		

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/HELD-TO MATURITY INVESTMENTS AT AMORTISED COST**

	<i>Note</i>	2018 HK\$'000	2017 HK\$'000
Certificates of deposit held		<b>2,269,082</b>	2,190,411
Treasury bills and government bonds (including Exchange Fund Bills)		<b>2,307,321</b>	1,664,246
Other debt securities		<b>1,627,169</b>	1,817,092
		<hr/>	<hr/>
Gross held-to-maturity investments at amortised cost		–	5,671,749
Gross held-to-collect debt securities at amortised cost		<b>6,203,572</b>	–
		<hr/>	<hr/>
Less: Provisions/impairment allowances for held-to-collect debt securities at amortised cost			
As at 31 December 2017 (Reported)	5	–	–
Impact of adopting HKFRS 9		<b>(570)</b>	–
Restated opening balance under HKFRS 9 as at 1 January 2018		<b>(570)</b>	–
Provisions charged to the consolidated income statement during the year		<b>(53)</b>	–
		<b>(623)</b>	–
		<hr/>	<hr/>
Held-to-maturity investments at amortised cost	5	–	5,671,749
Held-to-collect debt securities at amortised cost	5	<b>6,202,949</b>	–
		<hr/>	<hr/>
Listed or unlisted:			
– Listed in Hong Kong		<b>1,785,576</b>	1,601,770
– Listed outside Hong Kong		<b>189,670</b>	30,390
– Unlisted		<b>4,228,326</b>	4,039,589
		<hr/>	<hr/>
		<b>6,203,572</b>	5,671,749
		<hr/>	<hr/>
Analysed by type of issuers:			
– Central governments		<b>2,307,321</b>	1,664,246
– Public sector entities		<b>299,914</b>	299,846
– Banks and other financial institutions		<b>3,596,337</b>	3,707,657
		<hr/>	<hr/>
		<b>6,203,572</b>	5,671,749
		<hr/>	<hr/>

There were no specific provisions/impairment allowances made against held-to-collect debt securities at amortised cost/held-to-maturity investments at amortised cost as at 31 December 2018 and 31 December 2017.

There were neither impaired nor overdue held-to-collect debt securities at amortised cost/held-to-maturity investments at amortised cost as at 31 December 2018 and 31 December 2017.

All exposures attributed to the held-to-collect debt securities at amortised cost/held-to-maturity investments 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 2018 and 31 December 2017.

## 17. GOODWILL

	2018 HK\$'000	2017 HK\$'000
Cost and net carrying amount:		
At the beginning and the end of the year	<b>2,774,403</b>	<b>2,774,403</b>

### 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 5% to 6% per annum from the eleventh to fiftieth years taking into account long-term gross domestic product growth and other relevant economic factors. The discount rates used are based on the rates which reflect specific risks relating to the CGUs.

No impairment loss has been recognised in respect of goodwill for the years ended 31 December 2018 and 31 December 2017 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	Regulatory reserve (Note) HK\$'000	Retained profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
As at 1 January 2017	4,013,296	829	96,116	438,738	2,630,534	(10,000)	7,169,513
Profit for the year	–	–	–	–	503,514	–	503,514
Other comprehensive income	–	–	–	–	–	68,995	68,995
Transfer from retained profits to regulatory reserve	–	–	–	1,024	(1,024)	–	–
Dividends for 2017	13	–	–	–	(230,563)	–	(230,563)
As at 31 December 2017 and 1 January 2018	4,013,296	829	96,116	439,762	2,902,461	58,995	7,511,459
Impact of adopting HKFRS 9	5	–	–	(127,143)	31,592	–	(95,551)
Restated opening balance under HKFRS 9 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	<u>4,013,296</u>	<u>829</u>	<u>96,116</u>	<u>296,540</u>	<u>3,219,068</u>	<u>12,169</u>	<u>7,638,018</u>

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 2018 was positive goodwill of HK\$98,406,000 (31 December 2017: HK\$98,406,000), which arose from the acquisition of certain subsidiaries in prior years.

*Note:*

*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. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

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

As at 31 December 2018 and 31 December 2017, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	2018 HK\$'000	2017 HK\$'000
Within one year	<b>8,151</b>	9,366
In the second to fifth years, inclusive	<b>4,510</b>	3,835
	<b>12,661</b>	<b>13,201</b>

### (b) As lessee

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

As at 31 December 2018 and 31 December 2017, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	2018 HK\$'000	2017 HK\$'000
Within one year	<b>60,989</b>	57,433
In the second to fifth years, inclusive	<b>52,608</b>	59,570
Over five years	<b>316</b>	639
	<b>113,913</b>	<b>117,642</b>

## 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 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:					
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.

	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	26,801	26,801	20,098	–	–
Transaction-related contingencies	11,806	5,903	1,121	–	–
Trade-related contingencies	37,546	7,510	7,016	–	–
Forward forward deposits placed	–	–	–	–	–
Forward asset purchases	–	–	–	–	–
	76,153	40,214	28,235	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	1,310,892	17,429	3,486	4,317	1,696
Other commitments with an original maturity of:					
More than one year	18,737	9,368	9,368	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,996,905	–	–	–	–
	4,402,687	67,011	41,089	4,317	1,696
					2017
					Contractual amount
					HK\$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position				9,577	

The Group had not entered into any bilateral netting arrangements and accordingly the above amounts are shown on a gross basis. The credit risk-weighted amounts are calculated in accordance with the Capital Rules and guidelines issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities, commitments and derivatives.

As at 31 December 2018 and 31 December 2017, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

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

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

			2018						
			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
Repayable on demand	Up to 1 month	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Financial assets:</b>									
Cash and short term placements (gross)	1,110,116	2,844,036	-	-	-	-	-	-	3,954,152
Placements with banks and financial institutions maturing after one month but not more than twelve months (gross)	-	-	789,889	766,609	-	-	-	-	1,556,498
Loans and advances and receivables (gross)	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	
Held-to-collect debt securities at amortised cost (gross)	-	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	
Foreign exchange contracts (gross)	-	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	
<b>Financial liabilities:</b>									
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	
Certificates of deposit issued at amortised cost	-	-	-	-	-	-	-	-	
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	
Foreign exchange contracts (gross)	-	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	

	2017							
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over more than 3 months HK\$'000	Over more than 12 months HK\$'000	Over 1 year but not 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	Total HK\$'000
<b>Financial assets:</b>								
Cash and short term placements	1,177,541	3,694,992	–	–	–	–	–	4,872,533
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	772,667	741,428	–	–	–	1,514,095
Loans and advances and receivables (gross)	1,088,833	3,042,193	1,047,003	2,976,115	6,319,096	15,036,792	157,084	29,667,116
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments at amortised cost	–	480,115	1,056,466	2,004,538	2,130,630	–	–	5,671,749
Other assets	236	138,452	21,668	37,600	–	–	30,442	228,398
Foreign exchange contracts (gross)	–	1,155,332	155,560	–	–	–	–	1,310,892
Total financial assets	2,266,610	8,511,084	3,053,364	5,759,681	8,449,726	15,036,792	194,330	43,271,587
<b>Financial liabilities:</b>								
Deposits and balances of banks and other financial institutions at amortised cost	45,728	848,064	200,000	30,000	–	–	–	1,123,792
Customer deposits at amortised cost	11,439,939	7,302,196	8,062,858	6,153,066	1,026,036	–	–	33,984,095
Certificates of deposit issued at amortised cost	–	–	753,293	–	–	–	–	753,293
Unsecured bank loans at amortised cost	–	385,000	–	1,196,852	–	–	–	1,581,852
Other liabilities	1,449	173,058	31,355	36,262	33,905	–	186,642	462,671
Foreign exchange contracts (gross)	–	1,152,127	156,144	–	–	–	–	1,308,271
Total financial liabilities	11,487,116	9,860,445	9,203,650	7,416,180	1,059,941	–	186,642	39,213,974
Net liquidity gap	(9,220,506)	(1,349,361)	(6,150,286)	(1,656,499)	7,389,785	15,036,792	7,688	4,057,613

## **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 2018 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 2018 AGM of the Company held in March 2018 due to other engagement. The 2018 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, and the respective Chairmen of Board Committees of Public Bank (Hong Kong) and Public Finance were also present at the 2018 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 (2017: HK\$0.05) per ordinary share was paid on 8 August 2018. The second interim dividend of HK\$0.17 (2017: HK\$0.16) per ordinary share was declared on 27 December 2018 and will be payable on 22 February 2019 to shareholders of the Company whose names appear on the register of members on 1 February 2019. The Directors do not recommend the payment of a final dividend for the year (2017: Nil).

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from Monday, 18 March 2019 to Friday, 22 March 2019, 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 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 15 March 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

Business outlook and operating environment in Hong Kong for financial institutions remained challenging in the year under review. There were mixed signs of moderate economic recovery momentum in the first quarter of the year followed by slowdown of economic growth due to the escalation of Sino-US trade disputes and retaliatory tariffs for the remaining months of the year under review. The economic conditions were still volatile with fund flow volatilities and downside risks in Hong Kong and China.

The increase in Hong Kong dollar interest rates moved partly with the increase in US Federal interest rates, increased the debt burden of borrowers and impacted property collateral prices. However, this did not exert significant adverse impact on loan asset quality and profitability of financial institutions in Hong Kong. The Group grew its loan portfolio cautiously at reasonable interest yields, and continued to diversify revenue sources into fee-based and other businesses during the year under review.

### FINANCIAL REVIEW

#### Revenue and earnings

For the year ended 31 December 2018, the Group recorded a profit after tax of HK\$510.5 million, representing an increase of HK\$7.0 million or 1.4% when compared to the previous year.

The Group's basic earnings per share for 2018 was HK\$0.46. The Board declared a first interim dividend of HK\$0.05 per share in June 2018 and a second interim dividend of HK\$0.17 per share in December 2018. The Board did not recommend the payment of a final dividend, making a total dividend for the year of HK\$0.22 per share (2017: HK\$0.21 per share).

For the year under review, the Group's interest income increased by HK\$121.1 million or 6.9% to HK\$1.88 billion due to higher yields on loan portfolio, debt securities and bank placements whilst the Group's interest expense increased by HK\$92.3 million or 23.9% to HK\$478.9 million mainly due to higher funding costs of customer deposits. Consequently, the Group's net interest income increased by HK\$28.8 million or 2.1% to HK\$1.40 billion. Total operating income of the Group increased by HK\$33.0 million or 2.1% to HK\$1.63 billion. Gain from the change in fair value of investment properties increased by HK\$7.3 million to HK\$21.7 million.

Total operating expenses (before changes in fair value of investment properties) increased by HK\$18.5 million or 2.2% to HK\$870.9 million, mainly due to increase in staff related costs.

Credit loss expenses increased by HK\$15.9 million or 10.9% to HK\$162.0 million in 2018 as compared to 2017 partly due to recovery of a few large impaired loans in the previous year.

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

The Group's total loans and advances (including trade bills) increased by HK\$410.7 million or 1.4% to HK\$29.97 billion as at 31 December 2018 from HK\$29.56 billion as at 31 December 2017. Customer deposits increased by HK\$1.30 billion or 3.8% to HK\$35.28 billion as at 31 December 2018 from HK\$33.98 billion as at 31 December 2017.

As at 31 December 2018, the Group's total assets stood at HK\$45.75 billion.

## **Group's Branch network**

Public Bank (Hong Kong), a subsidiary of the Company, has 32 branches in Hong Kong and 4 branches in Shenzhen in the People's Republic of China to provide a broad range of commercial and retail banking services. Public Finance, a subsidiary of Public Bank (Hong Kong), is a deposit-taking company and has a network of 42 branches in Hong Kong. Winton Financial Limited ("Winton Financial"), another operating subsidiary of the Company, which operates under a money lenders licence, has a network of 3 branches in Hong Kong to provide personal financing to its target customer segment. In total, the Group has a combined branch network of 81 branches as at 31 December 2018 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 an increase of HK\$66.5 million or 0.3% to HK\$23.65 billion as at 31 December 2018 from HK\$23.58 billion as at 31 December 2017. Customer deposits (excluding a deposit from a subsidiary) increased by HK\$817.7 million or 2.8% to HK\$30.02 billion as at 31 December 2018 from HK\$29.20 billion as at 31 December 2017. Impaired loans to total loans ratio of Public Bank (Hong Kong) increased by 0.18% to 0.32% as at 31 December 2018 from 0.14% as at 31 December 2017.

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

### ***Public Finance***

Total loans and advances of Public Finance recorded a growth of HK\$337.0 million or 5.9% to HK\$6.06 billion as at 31 December 2018 from HK\$5.73 billion as at 31 December 2017. Customer deposits increased by HK\$388.9 million or 7.7% to HK\$5.47 billion as at 31 December 2018 from HK\$5.08 billion as at 31 December 2017. Impaired loans to total loans ratio of Public Finance increased by 0.19% to 1.96% as at 31 December 2018 from 1.77% as at 31 December 2017.

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

## **Segmental information**

The Group's businesses comprise three main segments: (i) retail and commercial banking businesses, (ii) stockbroking and wealth management services, and (iii) other businesses. 96.0% of the Group's operating income and 92.0% of the profit before tax were contributed by retail and commercial banking businesses for the year under review. When compared to the previous year, the Group's operating income from retail and commercial banking businesses increased by HK\$31.0 million or 2.0% to HK\$1.57 billion mainly due to the increase in net interest income of the Group. Profit before tax from retail and commercial banking businesses for 2018 increased by HK\$0.3 million or 0.1% to HK\$572.6 million due to the increase 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 2018, 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 2018.

## **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 ("HK\$") at floating interest rates stood at HK\$1.44 billion as at the end of 2018. Based on the level of bank borrowings as compared to the equity of the Group, the Group's gearing ratio stood at a healthy level of 0.19 times as at 31 December 2018. The bank borrowings as at 31 December 2018 had remaining maturity period in the range of less than one year to more 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 18.0% and 19.2% respectively as at 31 December 2018.

### **Asset quality and credit management**

The Group's impaired loans to total loans ratio increased by 0.13% to 0.65% as at 31 December 2018 from 0.52% as at 31 December 2017. 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 objective of the Group's human resources management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression within the Group. Staff are enrolled in external training courses, seminars, professional and technical courses in order to update their technical knowledge and skills, to increase their awareness of the market 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 2018, the Group's staff force stood at 1,348 employees. For the year ended 31 December 2018, the Group's total staff related costs amounted to HK\$546.3 million.

## PROSPECTS

The economic outlook of Hong Kong and Mainland China is anticipated to be challenging in the year 2019. The Sino-US tensions and the US' bilateral trade policies and protectionism measures with increased retaliatory tariffs are expected to pose increase of geopolitical risks to global nations, which will cast uncertainties over political, monetary, fiscal and trade policy developments. Hence, some manufacturers in Mainland China may consider to shift their production facilities to other low-cost locations in Southeast China. The economic momentum in key industry/service sectors including imports/exports, logistics, insurance, trade finance, and manufacturing is expected to be affected to some extent. The volatilities of asset prices and currency rates, coupled with the risk of reversal of fund flows in financial market, will also affect net worth and wealth of corporates and individuals of Hong Kong and China. The risk appetites for corporate investments/business expansions and individuals' private consumption are expected to become more risk averse, and are constrained to some extent in Hong Kong and China. The US Federal Reserve is expected to normalise its monetary policy with gradual balance sheet reduction and federal funds target interest rate rises. These will also have potential impact on consumer/investment sentiment, corporate loan demand and leverage, and debt-servicing burdens of individuals and corporates in Hong Kong and Mainland China.

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, and supporting of growth in loans and fee-based businesses. The Group will target at selected market segments of Public Bank (Hong Kong), Public Finance and Winton Financial to grow its retail and commercial lending business and consumer financing business.

Barring unforeseen circumstances, the Group expects to register moderate growth in its banking and financing businesses and improvement in its financial performance in 2019. 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 2018 as set out in this announcement have been reviewed by the Audit Committee.

## **PUBLICATION OF 2018 ANNUAL RESULTS AND ANNUAL REPORT**

This annual results announcement of the Group for the year ended 31 December 2018 is published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.publicfinancial.com.hk](http://www.publicfinancial.com.hk). The 2018 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 2019.

## **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, 17 January 2019

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