Audited Financial Statements

PUBLIC FINANCE LIMITED
大眾財務有限公司

31 December 2019

PUBLIC FINANCE LIMITED
大眾財務有限公司

CONTENTS

PUBLIC FINANCE LIMITED
大眾財務有限公司

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of Public Finance Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019.

Principal activities
The principal activities of the Group have not changed during the year and consisted of deposit taking, personal and commercial lending, which comprised mainly the granting of personal loans, revolving loans, property mortgage loans, hire purchase loans to individuals and small to medium size manufacturing companies, remittance service, the provision of finance to purchasers of taxis, the letting of investment properties and the provision of stockbroking.

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

Results and dividends
The Group's profit for the year ended 31 December 2019 and the Group's financial position as at that date are set out in the financial statements on pages 7 to 124.

Interim dividend of HK$44.116 cents (2018: HK$48.625 cents) per ordinary share was declared and paid during the year. The Directors recommend the payment of a final dividend of HK$31.649 cents (2018: HK$45.522 cents) per ordinary share for the year.

Investment properties, property and equipment and land held under finance leases
Details of movements in the investment properties, property and equipment and land held under finance leases of the Group during the year are set out in notes 14, 15 and 16 to the financial statements, respectively.

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

Reserves
Details of movements in the reserves of the Group and of the Company during the year are set out in notes 23 and 30(b) to the financial statements, respectively, and the consolidated statement of changes in equity.

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

Non-Executive Directors:
Tan Sri Dato' Sri Dr. Teh Hong Piow, Chairman
Quah Poh Keat
Dato' Chang Kat Kiam
Chong Yam Kiang (Re-designated from Non-Executive Director to Executive Director on 1 January 2020)

Independent Non-Executive Directors:
Tang Wing Chew, Co-Chairman
Lee Chin Guan
Lai Wan

Directors (Continued)
Executive Director:
Lee Huat Oon (Resigned on 1 January 2020)
Chong Yam Kiang (Re-designated from Non-Executive Director to Executive Director on 1 January 2020)

In accordance with Articles 110 and 111 of the Articles of Association of the Company, Tan Sri Dato' Sri Dr. Teh Hong Piow, Mr. Lee Chin Guan and Mr. Quah Poh Keat shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting ("AGM").

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

Lee Huat Oon (Resigned on 1 January 2020)
Chong Yam Kiang (Appointed on 1 January 2020)
Chiu Chik Shang

Management contracts
Save for employment contracts, no other contracts relating to the management and/or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

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

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

Directors' interests in transactions, arrangements or contracts
Except as detailed in note 26 to the financial statements, there has been no transaction, arrangement or contract of significance in relation to the Company's business to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party and in which a Director of the Company or an entity connected with the Director is or was materially interested, either directly or indirectly, subsisted during or at the end of the year.

Permitted indemnity provision
Pursuant to Article 158 of the Company's Articles of Association and subject to the provisions of the statutes, every Director, secretary or officer of the Company shall be indemnified out of the funds of the Company against all liability incurred by him as such Director, secretary or officer of the Company in or about the execution or holding of his office or otherwise in relation thereto. The Directors and officers liability insurance for the Company was/is in force during the year and as at the date on which this Directors' Report is approved in accordance with Section 391 of the Hong Kong Companies Ordinance.

Compliance with Supervisory Policy Manual
The Company has complied with the Supervisory Policy Manual ("SPM") Module CG-1 "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the Hong Kong Monetary Authority ("HKMA").

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

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

ON BEHALF OF THE BOARD
Tang Wing Chew
Director

16 January 2020

Independent auditor's report
To the members of Public Finance Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Public Finance Limited (the "Company") and its subsidiaries (the "Group") set out on pages 7 to 124, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the consolidated financial statements and auditor's report thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the report of the directors and other supplementary financial information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report
To the members of Public Finance Limited
(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the consolidated financial statements
The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

16 January 2020

PUBLIC FINANCE LIMITED
大眾財務有限公司

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Interest income	4	937,190	909,316
Interest expense	4	(140,410)	(101,212)
NET INTEREST INCOME		796,780	808,104
Other operating income	5	127,817	119,012
OPERATING INCOME		924,597	927,116
Operating expenses	6	(461,473)	(451,847)
Changes in fair value of investment properties	14	815	800
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		463,939	476,069
Credit loss expenses	7	(208,044)	(170,206)
PROFIT BEFORE TAX		255,895	305,863
Tax	9	(41,900)	(50,570)
PROFIT FOR THE YEAR		213,995	255,293
ATTRIBUTABLE TO:			
Owners of the Company		213,995	255,293

PUBLIC FINANCE LIMITED
大眾財務有限公司

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
PROFIT FOR THE YEAR	213,995	255,293
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	213,995	255,293
ATTRIBUTABLE TO:		
Owners of the Company	213,995	255,293

PUBLIC FINANCE LIMITED
大眾財務有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
ASSETS			
Cash and short term placements	11	759,159	733,382
Loans and advances and receivables	12	5,991,269	5,925,697
Held-to-collect debt securities at amortised cost	13	324,737	299,848
Investment properties	14	26,955	26,140
Property and equipment	15	22,309	19,603
Land held under finance leases	16	41,174	42,528
Right-of-use assets	17	68,056	-
Deferred tax assets	21	21,690	29,160
Intangible assets	19	486	486
Other assets	18	178,909	59,298
TOTAL ASSETS		7,434,744	7,136,142
EQUITY AND LIABILITIES			
LIABILITIES			
Customer deposits at amortised cost	20	5,575,741	5,465,419
Lease liabilities	17	69,284	-
Current tax payable		37,159	14,923
Deferred tax liabilities	21	4,941	4,812
Other liabilities	18	249,856	131,965
TOTAL LIABILITIES		5,936,981	5,617,119
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	22	671,038	671,038
Reserves	23	826,725	847,985
TOTAL EQUITY		1,497,763	1,519,023
TOTAL EQUITY AND LIABILITIES		7,434,744	7,136,142

Tang Wing Chew
Director

Chong Yam Kiang
Director

PUBLIC FINANCE LIMITED
大眾財務有限公司

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
TOTAL EQUITY			
As at 1 January (Reported)		1,519,023	1,512,820
Impact of adopting HKFRS 16	2.4	(3,272)	-
Restated opening balance under HKFRS 16		1,515,751	1,512,820
Profit for the year		213,995	255,293
Other comprehensive income		-	-
Total comprehensive income for the year		213,995	255,293
Dividends paid in respect of previous year	10(a)	(117,811)	(123,248)
Dividends paid in respect of current year	10(a)	(114,172)	(125,842)
Balance at the end of the year		1,497,763	1,519,023

PUBLIC FINANCE LIMITED
大眾財務有限公司

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		255,895	305,863
Adjustments for:			
Depreciation of property and equipment and land held under finance leases	6	9,644	9,140
Net losses on disposal of property and equipment	5	62	1
Depreciation of right-of-use assets	6	45,025	-
Other interest expenses	4	2,026	-
Gain on termination of leases	5	(810)	-
Increase in credit loss expenses for loans and advances and receivables		11,974	2,952
Increase in credit loss expenses for held-to-collect debt securities at amortised cost and bank placements		4	28
Increase in fair value of investment properties	14	(815)	(800)
Payment of dismantling costs		(54)	-
Profits tax paid		(11,418)	(40,223)
Operating profit before changes in operating assets and liabilities		311,533	276,961
Increase in operating assets:			
Increase in loans and advances and receivables		(77,546)	(335,537)
(Increase) / decrease in other assets		(119,611)	31,268
		(197,157)	(304,269)
Increase in operating liabilities:			
Increase in customer deposits at amortised cost		110,322	388,902
Increase / (decrease) in other liabilities		114,810	(39,393)
		225,132	349,509
Net cash inflow from operating activities		339,508	322,201

PUBLIC FINANCE LIMITED
大眾財務有限公司

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	15	(11,058)	(11,732)
Net cash outflow from investing activities		(11,058)	(11,732)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of lease liabilities	17	(45,797)	-
Dividends paid on shares		(231,983)	(249,090)
Net cash outflow from financing activities		(277,780)	(249,090)
NET INCREASE IN CASH AND CASH EQUIVALENTS		50,670	61,379
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		1,033,282	971,903
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		1,083,952	1,033,282
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand	28	441,628	351,248
Money at call and short notice with an original maturity within three months		317,555	382,156
Held-to-collect debt securities at amortised cost with an original maturity within three months		324,769	299,878
		1,083,952	1,033,282
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		(127,952)	(92,079)
Interest received		937,453	910,714

PUBLIC FINANCE LIMITED
大眾財務有限公司

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Dividend payable HK$'000	Lease liabilities HK$'000	Total liabilities from financing activities HK$'000
As at 31 December 2018 (Reported)	-	-	-
Impact of adopting HKFRS 16	-	66,403	66,403
Restated opening balance under HKFRS 16 as at 1 January 2019	-	66,403	66,403
Changes from financing cash flows:			
Dividends paid on ordinary shares	(231,983)	-	(231,983)
Repayment of lease liabilities	-	(45,797)	(45,797)
Total changes from financing cash flows	(231,983)	(45,797)	(277,780)
Other changes:			
Dividends declared on ordinary shares	231,983	-	231,983
Additions to lease liabilities	-	46,717	46,717
Interest expense on lease liabilities	-	1,961	1,961
Total other changes	231,983	48,678	280,661
As at 31 December 2019	-	69,284	69,284

	Dividend payable HK$'000	Total liabilities from financing activities HK$'000
As at 1 January 2018	-	-
Changes from financing cash flows:		
Dividends paid on ordinary shares	(249,090)	(249,090)
Total changes from financing cash flows	(249,090)	(249,090)
Other changes:		
Dividends declared on ordinary shares	249,090	249,090
Total other changes	249,090	249,090
As at 31 December 2018	-	-

1. CORPORATE AND GROUP INFORMATION

The Company is a company incorporated in Hong Kong with limited liability. The registered office of the Company is located at Room 1105-7, Wing On House, 71 Des Voeux Road Central, Central, Hong Kong.

The principal activities of the Group have not changed during the year and consisted of deposit taking, personal and commercial lending, which comprised mainly the granting of personal loans, revolving loans, property mortgage loans, hire purchase loans to individuals and small to medium size manufacturing companies, remittance service, the provision of finance to purchasers of taxis, the letting of investment properties and the provision of stockbroking.

The Company is a wholly-owned subsidiary of Public Bank (Hong Kong) Limited. Public Bank Berhad, a bank incorporated in Malaysia, is considered by the Directors to be the Company's ultimate holding company.

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

Name	Issued ordinary share capital HK$	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Public Financial Limited	10,100,000	100	-	Investment holding
Public Securities Limited	10,000,000	-	100	Securities brokerage
Public Securities (Nominees) Limited	10,000	100	-	Provision of nominee services

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (a collective term which includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int")) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and applicable requirements of the Hong Kong Companies Ordinance. They also contain certain disclosure information required under the Banking (Disclosure) Rules issued by the HKMA.

These financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, The consolidated financial statements are presented in Hong Kong dollars ("HKD") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 BASIS OF CONSOLIDATION

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

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

2.2 BASIS OF CONSOLIDATION (Continued)

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 as follows:

	31 December 2019		31 December 2018		
Name	Total assets HK$'000	Total equity HK$'000	Total assets HK$'000	Total equity HK$'000	Principal activities
Public Financial Limited	10,101	10,101	10,101	10,101	Investment holding
Public Securities Limited	334,243	187,857	208,268	170,762	Securities brokerage
Public Securities (Nominees) Limited	1,122	1,120	1,121	1,118	Provision of nominee services

The computation of liquidity maintenance ratio, common equity tier 1 ("CET1") capital ratio, tier 1 capital ratio, total capital ratio, capital conservation buffer ("CCB") ratio, countercyclical capital buffer ("CCyB") ratio and leverage ratio for regulatory reporting purpose is on a solo basis of the Company only.

2.3 BASIS OF CAPITAL DISCLOSURES

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

Should the Company 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 total capital ratio and other regulatory capital ratios of the Company is based on the solo basis of the Company for regulatory reporting purpose. No subsidiary will be consolidated for capital adequacy ratio computation as the subsidiaries do not satisfy the criteria as stipulated in the Banking (Capital) Rules (the "Capital Rules") issued by the HKMA.

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 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.

The Group has adopted the provisions of the Banking (Amendment) Ordinance 2012 relating to the Basel III capital standards and the amended 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 CCB ratio of 2.5%. Additional capital requirements, including a CCyB ratio ranging from 0% to 2.5%, have been implemented since 1 January 2016. The required CCyB ratio for 2018 and 2019 is 1.875% and 2.0%, respectively.

2.4 ACCOUNTING POLICIES

Changes in accounting policies and disclosures

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

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

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

HKFRS 16

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

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

2.4 ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

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

2.4 ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

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

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

	1 January 2019 HK$'000
Deferred tax assets	
Closing balance under HKAS 17 at 31 December 2018	29,160
- Deferred tax effect under HKFRS 16	**647**
Opening balance under HKFRS 16 at 1 January 2019	**29,807**
Right-of-use assets	
Closing balance under HKAS 17 at 31 December 2018	-
- Recognition of right-of-use assets under HKFRS 16	**65,458**
Opening balance under HKFRS 16 at 1 January 2019	**65,458**
Lease liabilities	
Closing balance under HKAS 17 at 31 December 2018	-
- Recognition of lease liabilities under HKFRS 16	**66,403**
Opening balance under HKFRS 16 at 1 January 2019	**66,403**
Other liabilities	
Closing balance under HKAS 17 at 31 December 2018	131,965
Recognition of other liabilities under HKFRS 16	**2,974**
Opening balance under HKFRS 16 at 1 January 2019	**134,939**
Retained profits	
Closing balance under HKAS 17 at 31 December 2018	847,985
- Recognition of right-of-use assets under HKFRS 16	**65,458**
- Recognition of lease liabilities under HKFRS 16	(66,403)
- Recognition of other liabilities under HKFRS 16	**(2,974)**
- Deferred tax effect under HKFRS 16	**647**
Opening balance under HKFRS 16 at 1 January 2019	**844,713**

2.4 ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

Consolidated Statement of Financial Position	31 December 2018 HK$'000	**Remeasurement HK$'000**	**1 January 2019 HK$'000**
Assets			
Cash and short term placements	733,382	**-**	**733,382**
Loans and advances and receivables	5,925,697	**-**	**5,925,697**
Held-to-collect debt securities at amortised cost	299,848	**-**	**299,848**
Investment properties	26,140	**-**	**26,140**
Property and equipment	19,603	**-**	**19,603**
Land held under finance leases	42,528	**-**	**42,528**
Right-of-use assets	-	**65,458**	**65,458**
Deferred tax assets	29,160	**647**	**29,807**
Intangible assets	486	**-**	**486**
Other assets	59,298	**-**	**59,298**
Total Assets	7,136,142	**66,105**	**7,202,247**

2.4 ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

Consolidated Statement of Financial Position	31 December 2018 HK$'000	**Remeasurement HK$'000**	**1 January 2019 HK$'000**
Equity and Liabilities			
Liabilities			
Customer deposits at amortised cost	5,465,419	**-**	**5,465,419**
Lease liabilities	-	**66,403**	**66,403**
Current tax payable	14,923	**-**	**14,923**
Deferred tax liabilities	4,812	**-**	**4,812**
Other liabilities	131,965	**2,974**	**134,939**
Total Liabilities	5,617,119	**69,377**	**5,686,496**
Equity attributable to owners of the Company			
Share capital	671,038	**-**	**671,038**
Reserves	847,985	**(3,272)**	**844,713**
Total Equity	1,519,023	**(3,272)**	**1,515,751**
Total Equity and Liabilities	7,136,142	**66,105**	**7,202,247**

2.4 ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

Nature of the effect of adoption of HKFRS 16

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

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

Leases previously classified as finance leases

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

Leases previously classified as operating leases

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

2.4 ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

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

Leases previously classified as operating leases (Continued)

The Group also applied the available practical expedients wherein it:

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

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of HK$65,458,000 were recognised and presented separately in the statement of financial position.
- Additional lease liabilities of HK$66,403,000 were recognised.
- Provisions for dismantling cost of HK$2,974,000 were recognised.
- Deferred tax assets increased by HK$647,000 because of the deferred tax impact of the changes in assets and liabilities.
- The net effect of these adjustments had been adjusted to retained earnings in the amount of HK$3,272,000.

2.4 ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

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

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

	HK$'000
Operating lease commitments as at 31 December 2018	61,739
Weighted average incremental borrowing rate as at 1 January 2019	2.73%
Discounted operating lease commitments as at 1 January 2019	**59,331**
Add:	
Payments in optional extension periods not recognised as at 31 December 2018	**7,072**
Lease liabilities as at 1 January 2019	**66,403**

HK(IFRIC)-Int 23

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

2.4 ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs

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

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

[1] *Effective for annual periods beginning on or after 1 January 2020*
[2] *No mandatory effective date yet determined but available for adoption*

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

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

2.4 ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

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

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

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

(1) Foreign currency translation

These financial statements are presented in HKD, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in "Other operating income" or "Other operating expenses" in the consolidated income statement with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity which is taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in OCI or profit or loss is also recognised in OCI or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(1) Foreign currency translation (Continued)

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries are translated into the Group's presentation currency at the rates of exchange ruling at the end of the reporting period, and their statement of comprehensive income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement as part of gain or loss on disposal.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement

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

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI"), and fair value through profit or loss ("FVPL").

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

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

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

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(i) Financial assets (Continued)

Initial recognition and measurement (Continued)

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(i) Financial assets (Continued)

Financial assets at amortised cost (debt instruments) (Continued)

The Group's financial assets at amortised cost includes cash and short term placements, placements with banks and financial institutions, loans and advances and receivables, and held-to-collect debt securities.

Financial assets at FVOCI (debt instruments)

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

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

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

Financial assets designated at FVOCI (equity instruments)

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

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(i) Financial assets (Continued)

Financial assets designated at FVOCI (equity instruments) (Continued)

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

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

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the consolidated income statement.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(i) Financial assets (Continued)

Financial assets at FVPL (Continued)

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at FVOCI. Dividends on listed equity investments are also recognised as “other operating income” in the consolidated income statement when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at FVPL. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVPL category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at FVPL.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(ii) Financial liabilities (Continued)

Initial recognition and measurement (Continued)

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include deposits and balances of banks and other financial institutions at amortised cost, customer deposits at amortised cost, certificates of deposit issued at amortised cost, unsecured bank loan at amortised cost, other liabilities and foreign exchange contracts.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated income statement.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. The Group has not designated any financial liability as at FVPL.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(ii) Financial liabilities (Continued)

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the consolidated income statement.

This category generally applies to customer deposits at amortised cost and unsecured bank loans at amortised cost.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(3) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(3) Derecognition of financial assets and financial liabilities (Continued)

(ii) Financial liabilities

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

(iii) Offsetting of financial instruments

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

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(4) Fair value measurement

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

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

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

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

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

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

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

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(4) Fair value measurement (Continued)

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

(5) Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). For revolving facilities that include both the loan and undrawn commitments, ECLs are calculated and presented together with the loan.

For accounts receivable from contracts with customers, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic conditions.

For loans and advances, accrued interests and loan commitments, the ECL is based on the 12-month ECL. The 12-month ECL is a 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.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(5) Impairment of financial assets (Continued)

The Group considers that there has been a significant increase in credit risk (i.e. Stage 2 for ECL calculations) in all cases when contractual payments are more than 30 days past due. The Group considers a financial asset in default (i.e. Stage 3 (credit-impaired) for ECL calculations) in all cases when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

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

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(5) Impairment of financial assets (Continued)

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

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 Aa2 based on the credit rating of Moody's Investors Service ("Moody's"), an external credit agency, as at 31 December 2019 and 31 December 2018. Over 90% (31 December 2018: over 90%) of the placements were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's. Therefore, they are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from the Moody's both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(6) Leases

Policy applicable from 1 January 2019

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

Group as a lessee

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

Right-of-use assets

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

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

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(6) Leases (Continued)

Policy applicable from 1 January 2019 (Continued)

Lease liabilities

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

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

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(6) Leases (Continued)

Policy applicable from 1 January 2019 (Continued)

Short-term leases and leases of low-value assets

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

Group as a lessor

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

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(6) Leases (Continued)

Policy applicable prior to 1 January 2019

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

(i) Group as a lessee

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

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

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

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

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

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(6) Leases (Continued)

Policy applicable prior to 1 January 2019 (Continued)

(ii) Group as a lessor

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

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

(7) Interest income and expense, fee and commission income and other operating income

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest income or expense.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(7) Recognition of revenue and expenditure (Continued)

(i) Interest income and expense (Continued)

Once the value of a financial asset or a group of similar financial assets had been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fees income can be divided into the following two categories:

(a) Fee income earned from services that are provided over a certain period of time

Fees earned from the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(b) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

(iii) Dividend income

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(7) Recognition of revenue and expenditure (Continued)

(iv) Net trading income

Net trading income arising from trading activities includes all gains and losses from changes in fair value for financial assets and financial liabilities held for trading. Gains and losses on foreign exchange trading and other transactions are also reported as “Net trading income” except for those gains and losses on translation of foreign currencies recognised in the translation reserve.

(v) Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the consolidated income statement as “Other operating income”.

(8) Cash and cash equivalents

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

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(9) Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(10) Property and equipment, and depreciation

Property and equipment are stated at cost, except for certain buildings transferred from investment properties which are stated at deemed cost at the date of transfer, less accumulated depreciation and impairment. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2%
Leasehold improvements:	
Own leasehold buildings	20% to 33⅓%
Others	Over the shorter of the remaining lease terms and 7 years
Furniture, fixtures and equipment	10% to 25%
Motor vehicles	25%
Land held under finance leases	Over the lease terms

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(10) Property and equipment, and depreciation (Continued)

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

Medium-term leases are leases with remaining lease periods of more than 10 years to 50 years. Long-term leases are leases with remaining lease periods of more than 50 years.

(11) Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property and equipment, and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under “Property and equipment, and depreciation” above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the consolidated income statement.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(12) Intangible assets (other than goodwill)

Intangible assets, representing eligibility rights to trade on or through Hong Kong Exchanges and Clearing Limited, are stated at cost less impairment. The useful lives are assessed to be indefinite and they are reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis. The carrying amount of intangible assets is subject to an annual impairment test, and impairment, if any, is charged to the consolidated income statement.

(13) Impairment of non-financial assets

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

For assets excluding goodwill and deferred tax assets, an assessment is made at each reporting date as to determine whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period it arises.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(14) Repossessed assets and valuation of collateral

Collateral assets for loans and advances and receivables are repossessed by the Group when the borrowers are unable to service their repayments, and would be realised in satisfaction of outstanding debts. Advances with repossessed collateral assets will continue to be accounted for as customer advances, except for those where the Group has taken the legal title and control of the repossessed collateral assets, in which cases the repossessed assets are shown under other accounts at the predetermined value with a corresponding reduction in the related advances. Individual impairment allowance is made on the shortfall between the expected net realisable value of the repossessed assets and the outstanding advances.

Repossessed assets are recognised at the lower of the carrying amount of the related loans and advances and receivables and fair value less costs to sell.

(15) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in “Operating expenses” in the consolidated income statement.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(16) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credit and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credit and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(16) Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(17) Employee benefits

(i) Retirement benefit schemes

The Group participates in two defined contribution retirement benefit schemes for those employees who are eligible to participate. The assets of the schemes are held separately from those of the Group in independently administered funds.

Contribution for Mandatory Provident Fund (MPF) Scheme is made based on a percentage of the participating employees' relevant monthly income from the Group while contribution for Occupational Retirement Schemes Ordinance (ORSO) Scheme is made based on the participating employees' basic salary, and the contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the respective schemes. When an employee leaves the Group prior to his/her interest in the Group's employer non-mandatory contributions vesting with the employee, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. The Group's mandatory contributions vest fully with the employee.

2.5 ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(17) Employee benefits (Continued)

(ii) Employee leave entitlements

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated as at the end of the reporting period.

(18) Dividends

Final dividends proposed by the Directors will remain in retained profits within reserves in the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. Final dividends are recognised as a liability when they are approved by the shareholders in the general meeting.

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

2.6 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimation uncertainty

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

Impairment allowances on loans and advances and receivables

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

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

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

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

2.6 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Estimation uncertainty (Continued)

Leases - Estimating the incremental borrowing rate

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

Judgements

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

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

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

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

2.6 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Judgements (Continued)

Property lease classification – Group as lessor

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

3. 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:

- the core businesses of the Group are personal and commercial lending businesses, which comprise mainly the granting of personal loans, revolving loans, property mortgage loans, hire purchase loans to individuals and small to medium size manufacturing companies, remittance service, and the provision of finance to purchase of taxis;

- the stockbroking segment comprises securities dealing and receipt of commission income; and

- other businesses segment comprises mainly the letting of investment properties.

3. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table discloses the revenue and profit information for operating segments for the years ended 31 December 2019 and 31 December 2018.

	Personal and commercial lending businesses		Stockbroking		Other businesses		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue								
External:								
Net interest income/(expense)	797,620	808,379	(840)	(275)	-	-	796,780	808,104
Other operating income:								
Fees and commission income	91,713	91,796	34,356	25,910	-	-	126,069	117,706
Others	931	332	(6)	(8)	823	982	1,748	1,306
Operating income	890,264	900,507	33,510	25,627	823	982	924,597	927,116
Operating profit after credit loss expenses before tax	234,989	292,727	20,369	13,077	537	59	255,895	305,863
Tax							(41,900)	(50,570)
Profit for the year							213,995	255,293
Other segment information								
Depreciation of property and equipment and land held under finance leases	(9,644)	(9,140)	-	-	-	-	(9,644)	(9,140)
Depreciation of right-of-use assets	(45,025)	-	-	-	-	-	(45,025)	-
Changes in fair value of investment properties	-	-	-	-	815	800	815	800
Credit loss expenses	(208,044)	(170,206)	-	-	-	-	(208,044)	(170,206)
Net losses on disposal of property and equipment	(62)	(1)	-	-	-	-	(62)	(1)

3. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

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

	Personal and commercial lending businesses		Stockbroking		Other businesses		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets other than intangible assets	7,022,894	6,846,670	362,719	233,686	26,955	26,140	7,412,568	7,106,496
Intangible assets	-	-	486	486	-	-	486	486
Segment assets	7,022,894	6,846,670	363,205	234,172	26,955	26,140	7,413,054	7,106,982
Unallocated assets:								
Deferred tax assets and tax recoverable							21,690	29,160
Total assets							7,434,744	7,136,142
Segment liabilities	5,724,334	5,535,502	170,326	61,661	221	221	5,894,881	5,597,384
Unallocated liabilities:								
Deferred tax liabilities and tax payable							42,100	19,735
Total liabilities							5,936,981	5,617,119
Other segment information								
Additions to non-current assets - capital expenditure	11,058	11,732	-	-	-	-	11,058	11,732

Geographical information

Over 90% (2018: over 90%) of the Group's operating income, profit before tax, assets, liabilities, off-balance sheet commitments and exposures are derived from operations carried out in Hong Kong. Accordingly, no geographical segment information is presented in the financial statements.

Operating income or revenue from major customers

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

4. INTEREST INCOME AND EXPENSE

	2019 HK$'000	2018 HK$'000
Interest income from:		
Loans and advances and receivables	927,193	905,246
Short term placements and placements with banks	4,759	2,895
Held-to-collect debt securities at amortised cost	5,238	1,175
	937,190	909,316
Interest expense on:		
Deposits from customers	137,398	100,764
Bank loans	986	448
Others	2,026	-
	140,410	101,212

Interest income and interest expense for the year ended 31 December 2019, calculated using the effective interest method for financial assets and financial liabilities which are not designated at FVPL, amounted to HK$937,190,000 and HK$140,410,000 (2018: HK$909,316,000 and HK$101,212,000) respectively. Interest income on the impaired loans and advances for the year ended 31 December 2019 amounted to HK$7,108,000 (2018: HK$5,837,000).

5. OTHER OPERATING INCOME

	2019 HK$'000	2018 HK$'000
Fees and commission income:		
Personal and commercial lending	91,713	91,796
Stockbroking	34,356	25,910
	126,069	117,706
Gross rental income	828	989
Less: Direct operating expenses	(5)	(7)
Net rental income	823	982
Net losses on disposal of property and equipment	(62)	(1)
Gain on termination of leases	810	-
Others	177	325
	127,817	119,012

5. OTHER OPERATING INCOME (Continued)

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

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

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

6. OPERATING EXPENSES

	Notes	2019 HK$'000	2018 HK$'000
Staff costs:			
Salaries and other staff costs		283,575	275,890
Pension contributions		12,779	12,345
Less: Forfeited contributions		(158)	(35)
Net contribution to retirement benefit schemes		12,621	12,310
		296,196	288,200
Other operating expenses:			
Operating lease rentals on leasehold buildings		-	44,828
Depreciation of right-of-use assets		45,025	-
Depreciation of property and equipment and land held under finance leases	15, 16	9,644	9,140
Auditors' remuneration		1,691	1,701
Administrative and general expenses		39,351	36,589
Others		69,566	71,389
Operating expenses before changes in fair value of investment properties		461,473	451,847

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

7. CREDIT LOSS EXPENSES

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

	2019			
	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	(2,242)	4,478	205,795	208,031
- accrued interest and other receivables	24	-	-	24
- cash and short term placements	2	-	-	2
- held-to-collect debt securities at amortised cost	2	-	-	2
- loan commitments	(15)	-	-	(15)
	(2,229)	4,478	205,795	208,044

7. CREDIT LOSS EXPENSES (Continued)

	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	4,302	(3,072)	168,971	170,201
- accrued interest and other receivables	(12)	-	-	(12)
- cash and short term placements	-	-	-	-
- held-to-collect debt securities at amortised cost	28	-	-	28
- loan commitments	(11)	-	-	(11)
	4,307	(3,072)	168,971	170,206

8. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 HK$'000	2018 HK$'000
Fees	1,263	1,263
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	2,712	2,599
Retirement benefits contribution	211	213
	4,186	4,075

9. TAX

	Note	2019 HK$'000	2018 HK$'000
Current tax charge		33,654	50,409
Deferred tax charge, net	21	8,246	161
		41,900	50,570

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rates to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. statutory tax rates) to the effective tax rates, are as follows:

	2019 HK$'000	%	2018 HK$'000	%
Profit before tax	255,895		305,863	
Tax at the applicable tax rate	42,223	16.5	50,467	16.5
Estimated tax effect of net (income)/expenses that is/are not (taxable)/deductible	(323)	(0.1)	103	-
Tax charge at the Group's effective rate	41,900	16.4	50,570	16.5

10. DIVIDENDS

(a) Dividends approved and paid during the year

	2019 HK cents per ordinary share	2018 HK cents per ordinary share	2019 HK$'000	2018 HK$'000
Interim dividend	44.116	48.625	114,172	125,842
Final dividend in respect of previous year	45.522	47.623	117,811	123,248
	89.638	96.248	231,983	249,090

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

(b) Dividends attributable to the year

	2019 HK cents per ordinary share	2018 HK cents per ordinary share	2019 HK$'000	2018 HK$'000
Interim dividend	44.116	48.625	114,172	125,842
Proposed final dividend	31.649	45.522	81,908	117,811
	75.765	94.147	196,080	243,653

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

11. CASH AND SHORT TERM PLACEMENTS

	2019 HK$'000	2018 HK$'000
Cash and placements with banks and financial institutions	441,628	351,248
Money at call and short notice	317,555	382,156
Gross cash and short term placements	759,183	733,404
Less: Impairment allowances collectively assessed		
As at 1 January 2019 and 2018	(22)	(22)
Credit loss expenses charged to the consolidated income statement during the year	(2)	-
	(24)	(22)
Cash and short term placements	759,159	733,382

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

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

12. LOANS AND ADVANCES AND RECEIVABLES

	2019 HK$'000	2018 HK$'000
Loans and advances to customers	6,139,924	6,062,056
Accrued interest	44,588	44,910
Gross loans and advances and receivables	6,184,512	6,106,966
Less: Impairment allowances*		
- specifically assessed	(61,842)	(52,113)
- collectively assessed	(131,401)	(129,156)
	(193,243)	(181,269)
Loans and advances and receivables	5,991,269	5,925,697

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

* *The balances also include the impairment allowances of HK$21,000 and HK$36,000 on off-balance sheet credit exposures as at 31 December 2019 and 31 December 2018 respectively.*

Loans and advances and receivables are summarised as follows:

	2019 HK$'000	2018 HK$'000
Neither past due nor impaired loans and advances and receivables	5,892,537	5,828,465
Past due but not impaired loans and advances and receivables	170,305	159,492
Credit impaired loans and advances	121,670	118,918
Credit impaired receivables	-	91
Gross loans and advances and receivables	6,184,512	6,106,966

About 30% (31 December 2018: about 31%) of "Neither past due nor impaired loans and advances and receivables" were property mortgage loans and taxi financing loans secured by customer deposits, properties, taxi licences and vehicles.

12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	2019		2018	
	Gross amount HK$'000	Percentage of total loans and advances %	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	52,582	0.86	48,122	0.79
One year or less but over six months	967	0.01	983	0.02
Over one year	-	-	2,740	0.04
Loans and advances overdue for more than three months	53,549	0.87	51,845	0.85
Rescheduled loans and advances overdue for three months or less	65,047	1.06	64,165	1.06
Impaired loans and advances overdue for three months or less	3,074	0.05	2,908	0.05
Total overdue and impaired loans and advances	121,670	1.98	118,918	1.96

12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(a) (ii) Ageing analysis of overdue and impaired accrued interest and other receivables

	2019 HK$'000	2018 HK$'000
Accrued interest and other receivables overdue for:		
Six months or less but over three months	-	-
One year or less but over six months	-	-
Over one year	-	91
Accrued interest and other receivables overdue for more than three months	-	91
Impaired accrued interest and other receivables overdue for three months or less	-	-
Total overdue and impaired accrued interest and other receivables	-	91

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

12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	2019 HK$'000	2018 HK$'000
(i) Analysis of overdue loans and advances and receivables		
Loans and advances and receivables overdue for more than three months	53,549	51,936
Impairment allowances specifically assessed	41,083	37,232
Current market value and fair value of collateral	-	7,040
(ii) Analysis of impaired loans and advances and receivables		
Impaired loans and advances and receivables	121,670	119,009
Impairment allowances specifically assessed	61,842	52,113
Current market value and fair value of collateral	-	7,040

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

12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	2019 HK$'000	2018 HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	-	7,040
Covered portion of overdue loans and advances	-	2,740
Uncovered portion of overdue loans and advances	53,549	49,105

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.

12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(d) Repossessed assets

There was no repossessed asset of the Group as at 31 December 2019 (31 December 2018: HK$7,040,000).

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

	2019		2018	
	Gross amount HK$'000	Percentage of total loans and advances %	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for three months or less	170,153	2.8	159,360	2.6
Accrued interest and other receivables overdue for three months or less	152		132	

12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

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

	2019			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Gross loans and advance and receivables as at 1 January 2019	5,929,890	58,067	119,009	6,106,966
New loans/financing originated	3,403,343	-	-	3,403,343
Loans/financing derecognised or repaid during the year (other than write-offs)	(2,982,292)	(12,021)	(18,097)	(3,012,410)
Transfer to 12-month expected credit loss (Stage 1)	26,778	(4,874)	(21,904)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(57,127)	59,418	(2,291)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(317,959)	(40,381)	358,340	-
Total transfer between stages	(348,308)	14,163	334,145	-
Write-offs	-	-	(313,387)	(313,387)
As at 31 December 2019	6,002,633	60,209	121,670	6,184,512
Arising from:				
Loans and advances	5,958,046	60,208	121,670	6,139,924
Accrued interest and other receivables	44,587	1	-	44,588
	6,002,633	60,209	121,670	6,184,512

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK$251,894,000.

12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	2018			
	Stage 1	Stage 2	Stage 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Gross loans and advance and receivables as at 1 January 2018	5,598,294	71,843	101,292	5,771,429
New loans/financing originated	3,589,633	-	-	3,589,633
Loans/financing derecognised or repaid during the year (other than write-offs)	(2,928,075)	(14,573)	(12,221)	(2,954,869)
Transfer to 12-month expected credit loss (Stage 1)	25,875	(8,761)	(17,114)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(55,443)	56,371	(928)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(300,394)	(46,813)	347,207	-
Total transfer between stages	(329,962)	797	329,165	-
Write-offs	-	-	(299,227)	(299,227)
As at 31 December 2018	5,929,890	58,067	119,009	6,106,966
Arising from:				
Loans and advances	5,885,099	58,039	118,918	6,062,056
Accrued interest and other receivables	44,791	28	91	44,910
	5,929,890	58,067	119,009	6,106,966

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK$240,258,000.

12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

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

	2019			
	Stage 1	Stage 2	Stage 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Internal rating grades:				
Performing				
Pass	5,937,500	-	-	5,937,500
Special mention	65,133	60,209	-	125,342
Non-performing				
Substandard	-	-	113,794	113,794
Doubtful	-	-	2,260	2,260
Loss	-	-	5,616	5,616
Total	6,002,633	60,209	121,670	6,184,512

	2018			
	Stage 1	Stage 2	Stage 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Internal rating grades:				
Performing				
Pass	5,864,412	-	-	5,864,412
Special mention	65,478	58,067	-	123,545
Non-performing				
Substandard	-	-	109,729	109,729
Doubtful	-	-	4,687	4,687
Loss	-	-	4,593	4,593
Total	5,929,890	58,067	119,009	6,106,966

12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

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

	2019			
	Stage 1	Stage 2	Stage 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2019	99,885	29,271	52,113	181,269
New loans/financing originated	75,393	-	-	75,393
Loans/financing derecognised or repaid during the year (other than write-offs)	(67,480)	(5,723)	(122,375)	(195,578)
Transfer to 12-month expected credit loss (Stage 1)	3,255	(456)	(2,799)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(2,267)	2,589	(322)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(9,441)	(22,967)	32,408	-
Total transfer between stages	(8,453)	(20,834)	29,287	-
Impact on year end expected credit loss of exposures transferred between stages during the year	(194)	31,035	275,484	306,325
Movements due to changes in credit risk	(1,499)	-	23,399	21,900
Recoveries	-	-	117,321	117,321
Write-offs	-	-	(313,387)	(313,387)
As at 31 December 2019	97,652	33,749	61,842	193,243
Arising from:				
Loans and advances	95,938	33,749	61,842	191,529
Accrued interest and other receivables	1,693	-	-	1,693
Loan commitments	21	-	-	21
	97,652	33,749	61,842	193,243

12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	2018			
	Stage 1	Stage 2	Stage 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2018	95,606	32,343	50,368	178,317
New loans/financing originated	77,304	-	-	77,304
Loans/financing derecognised or repaid during the year (other than write-offs)	(65,135)	(7,263)	(137,209)	(209,607)
Transfer to 12-month expected credit loss (Stage 1)	4,026	(946)	(3,080)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(1,877)	2,002	(125)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(8,675)	(23,469)	32,144	-
Total transfer between stages	(6,526)	(22,413)	28,939	-
Impact on year end expected credit loss of exposures transferred between stages during the year	(1,977)	26,604	255,931	280,558
Movements due to changes in credit risk	613	-	21,310	21,923
Recoveries	-	-	132,001	132,001
Write-offs	-	-	(299,227)	(299,227)
As at 31 December 2018	99,885	29,271	52,113	181,269
Arising from:				
Loans and advances	98,180	29,271	52,113	179,564
Accrued interest and other receivables	1,669	-	-	1,669
Loan commitments	36	-	-	36
	99,885	29,271	52,113	181,269

12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(g) Finance lease receivables

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

	2019	2018	2019	2018
	Minimum lease payments		Present value of minimum lease payments	
	HK$'000	HK$'000	HK$'000	HK$'000
Amounts receivable under finance leases:				
Within one year	87,022	87,354	69,443	68,365
In the second to fifth years, inclusive	189,743	201,707	136,702	142,983
Over five years	637,781	714,767	536,035	595,116
	914,546	1,003,828	742,180	806,464
Less: Unearned finance income	(172,366)	(197,364)		
Present value of minimum lease payments receivable	742,180	806,464		

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.

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

	2019 HK$'000	2018 HK$'000
Unlisted:		
Treasury bills (including Exchange Fund Bills)	324,769	299,878
Less: Impairment allowances collectively assessed		
As at 1 January 2019 and 2018	(30)	(2)
Credit loss expenses charged to the consolidated income statement during the year	(2)	(28)
	(32)	(30)
Held-to-collect debt securities at amortised cost	324,737	299,848
Analysed by type of issuers:		
- Central governments	324,737	299,848

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

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

All exposures attributed to the held-to-collect debt securities at amortised cost were rated with a grading of Aa2 based on the credit rating of Moody's, an external credit agency, as at 31 December 2019 and 31 December 2018.

14. INVESTMENT PROPERTIES

	HK$'000
At valuation:	
As at 1 January 2018	25,340
Changes in fair value recognised in the consolidated income statement	800
As at 31 December 2018 and 1 January 2019	26,140
Changes in fair value recognised in the consolidated income statement	815
As at 31 December 2019	26,955

The Group's investment properties are situated in Hong Kong and are held under the following lease terms:

	2019 HK$'000	2018 HK$'000
At valuation:		
On medium-term leases	26,955	26,140

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

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

14. INVESTMENT PROPERTIES (Continued)

The fair value of investment properties located in Hong Kong is determined using market comparison approach by reference to recent sales price of comparable properties on a price per square metre basis. Below is a summary of the significant inputs to the valuation of investment properties:

	2019		2018	
	Range HK$	Weighted average HK$	Range HK$	Weighted average HK$
Price per square metre	85,000 to 86,000	85,000	82,000 to 84,000	83,000

A significant increase/decrease in the price per square metre would result in a significant increase/decrease in the fair value of the investment properties.

The investment properties held by the Group are let under operating leases from which the Group earns rental income. Details of future annual rental receivables under operating leases are included in note 24(a) to the financial statements.

15. PROPERTY AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
As at 1 January 2018	6,247	94,911	1,609	102,767
Additions	-	11,732	-	11,732
Disposals/write-off	-	(3,789)	-	(3,789)
As at 31 December 2018 and 1 January 2019	6,247	102,854	1,609	110,710
Additions	-	11,058	-	11,058
Disposals/write-off	-	(3,021)	-	(3,021)
As at 31 December 2019	6,247	110,891	1,609	118,747
Accumulated depreciation:				
As at 1 January 2018	1,811	83,688	1,609	87,108
Provided during the year	124	7,663	-	7,787
Disposals/write-off	-	(3,788)	-	(3,788)
As at 31 December 2018 and 1 January 2019	1,935	87,563	1,609	91,107
Provided during the year	124	8,166	-	8,290
Disposals/write-off	-	(2,959)	-	(2,959)
As at 31 December 2019	2,059	92,770	1,609	96,438
Net carrying amount:				
As at 31 December 2019	4,188	18,121	-	22,309
As at 31 December 2018	4,312	15,291	-	19,603

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

All property and equipment are situated in Hong Kong.

16. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
As at 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	60,623
Accumulated depreciation and impairment:	
As at 1 January 2018	16,742
Depreciation provided during the year	1,353
As at 31 December 2018 and 1 January 2019	18,095
Depreciation provided during the year	1,354
As at 31 December 2019	19,449
Net carrying amount:	
As at 31 December 2019	41,174
As at 31 December 2018	42,528

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

	2019 HK$'000	2018 HK$'000
Leaseholds held in Hong Kong :		
On medium-term leases	41,174	42,528

Land leases are stated at the recoverable amount and are subject to an impairment test pursuant to HKAS 36, which is based on the higher of fair value less costs of disposal and value-in-use.

17. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

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

Right-of-use assets:

	Land and buildings HK$'000
Cost:	
As at 31 December 2018 (Reported)	-
Impact of adopting HKFRS 16	141,322
Restated opening balance under HKFRS 16 as at 1 January 2019	141,322
Additions	47,623
Reassessment	-
Written off	(43,374)
As at 31 December 2019	145,571
Accumulated depreciation and impairment:	
As at 31 December 2018 (Reported)	-
Impact of adopting HKFRS 16	(75,864)
Restated opening balance under HKFRS 16 as at 1 January 2019	(75,864)
Depreciation provided during the year	(45,025)
Written off	43,374
Exchange difference	-
As at 31 December 2019	(77,515)
Net carrying amount:	
As at 31 December 2019	68,056

17. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Continued)

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

Lease liabilities:

	Land and buildings HK$'000
As at 31 December 2018 (Reported)	-
Impact of adopting HKFRS 16	66,403
Restated opening balance under HKFRS 16 as at 1 January 2019	66,403
Additions	46,717
Interest expense	1,961
Payments	(45,797)
Reassessment	-
Exchange difference	-
As at 31 December 2019	69,284

The maturity analysis of lease liabilities is disclosed in note 28 to the financial statements.

The following are the amounts recognised in profit or loss:

	2019 HK$'000
Depreciation expense of right-of-use assets	45,025
Interest expense on lease liabilities	1,961
Expense relating to leases of low-value assets	1,187
	48,173

The group had total cash outflow for leases of HK$45,797,000 in 2019. The future cash outflows relating to leases committed but not yet commenced are disclosed in note 24 to the financial statements.

18. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	2019 HK$'000	2018 HK$'000
Interest receivable from financial institutions	183	123
Other debtors, deposits and prepayments	136,753	52,529
Amount due from a fellow subsidiary	657	626
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	41,316	6,020
	178,909	59,298

The amount due from a fellow subsidiary was unsecured, interest-free and repayable on demand.

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

18. OTHER ASSETS AND OTHER LIABILITIES (Continued)

Other liabilities

	2019 HK$'000	2018 HK$'000
Creditors, accruals and interest payable	242,021	119,596
Net amount of accounts payable to HKSCC	7,835	12,369
	249,856	131,965

Public Securities Limited maintains accounts with HKSCC through which it conducts securities trading transactions and settlement on a net basis.

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

	Gross amount HK$'000	Amount offset HK$'000	Net amount HK$'000
Other assets			
2019			
Amount of accounts receivable from HKSCC	210,648	(169,332)	41,316
2018			
Amount of accounts receivable from HKSCC	31,047	(25,027)	6,020
Other liabilities			
2019			
Amount of accounts payable to HKSCC	(177,167)	169,332	(7,835)
2018			
Amount of accounts payable to HKSCC	(37,396)	25,027	(12,369)

19. INTANGIBLE ASSETS

	2019 HK$'000	2018 HK$'000
Cost:		
At the beginning and at the end of the year	486	486
Accumulated impairment:		
At the beginning and at the end of the year	-	-
Net carrying amount:		
At the beginning and at the end of the year	486	486

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

20. CUSTOMER DEPOSITS AT AMORTISED COST

All the customer deposits were time deposits repayable at maturity dates.

21. DEFERRED TAX

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

Deferred tax assets:

	Note	Impairment allowances for loans and advances and receivables HK$'000
As at 1 January 2018		28,750
Deferred tax credited to the consolidated income statement		410
As at 31 December 2018 (Reported)		29,160
Impact of adopting HKFRS 16	2.4	647
Restated opening balance under HKFRS 16 as at 1 January 2019		29,807
Deferred tax charged to the consolidated income statement		(8,117)
As at 31 December 2019		21,690

Deferred tax liabilities:

	Depreciation allowance in excess of related depreciation HK$'000
As at 1 January 2018	4,241
Deferred tax charged to the consolidated income statement	571
As at 31 December 2018 and 1 January 2019	4,812
Deferred tax charged to the consolidated income statement	129
As at 31 December 2019	4,941

22. SHARE CAPITAL

	2019 HK$'000	2018 HK$'000
Issued and fully paid:		
258,800,000 (2018: 258,800,000) ordinary shares	671,038	671,038

23. RESERVES

	Note	Retained profits HK$'000
As at 1 January 2018		841,782
Profit for the year		255,293
Dividends paid in respect of previous year		(123,248)
Dividends paid in respect of current year		(125,842)
As at 31 December 2018 (Reported)		847,985
Impact of adopting HKFRS 16	2.4	(3,272)
Restated opening balance under HKFRS 16 as at 1 January 2019		844,713
Profit for the year		213,995
Dividends paid in respect of previous year		(117,811)
Dividends paid in respect of current year		(114,172)
As at 31 December 2019		826,725

24. LEASES

(a) As lessor

The Group leases its investment properties as described in note 14 under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

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

	2019 HK$'000	2018 HK$'000
Within one year	590	827
In the second to fifth years, inclusive	-	590
	590	1,417

(b) As lessee

The Group has entered into future lease arrangements with landlords, and the terms of the leases range from 1 to 5 years.

The Group has several lease contracts that include extension options. Management exercises significant judgement in determining whether these extension options are reasonably certain to be exercised (see note 2.6 to the financial statements). Upon adoption of HKFRS 16 and during the year ended 31 December 2019, management has considered to exercise all extension options available in the lease contracts which have commenced, and therefore, all future cash outflows to which the Group is potentially exposed have already been reflected in the measurement of lease liabilities.

The Group also has certain leases of office equipment with low value. The Group applies the "lease of low-value assets" recognition exemptions for these leases."

24. LEASES (Continued)

(b) As lessee

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

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

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

	2018 HK$'000
Within one year	34,176
In the second to fifth years, inclusive	27,563
	61,739

25. CONTINGENT LIABILITIES AND COMMITMENTS

	2019		2018	
	Contractual amount HK$'000	Credit risk-weighted amount HK$'000	Contractual amount HK$'000	Credit risk-weighted amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position:				
- With an original maturity of not more than one year	6,127	-	5,156	-
Undrawn loan facilities with an original maturity of not more than one year or which are unconditionally cancellable, granted to:				
- Customers	20,517	-	23,066	-
	26,644	-	28,222	-

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 and commitments.

The corresponding ECLs for the outstanding off-balance sheet exposures are included in the analysis of changes in ECL allowances in note 12(f) to the financial statements.

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

During the year, no derivative activities were transacted by the Group (2018: Nil).

26. RELATED PARTY TRANSACTIONS

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

	Notes	2019 HK$'000	2018 HK$'000
Related party transactions included in the consolidated income statement:			
Management fees from a fellow subsidiary	(a)	580	803
Management fees to the intermediate holding company	(b)	-	810
Rent paid to the intermediate holding company	(c)	9,193	10,081
Rent paid to the immediate holding company	(d)	1,514	-
Interest received from the immediate holding company	(e)	2,473	1,800
Interest paid to a fellow subsidiary	(f)	249	61
Commission income from key management personnel	(g)	-	4
Commission and service fee to a fellow subsidiary	(h)	9	3
Building management fee to the intermediate holding company	(c)	4	83
Commitment fee paid to the ultimate holding company	(i)	1,650	1,272
Commitment fee paid to a fellow subsidiary	(j)	124	142
Bank service charges to the immediate holding company	(k)	1,716	1,581
Key management personnel compensation:			
- Short term employee benefits	(l)	5,371	5,203
- Post-employment benefits	(l)	317	314

26. RELATED PARTY TRANSACTIONS (Continued)

	Notes	2019 HK$'000	2018 HK$'000
Related party transactions included in the consolidated statement of financial position:			
Cash and short term funds with the ultimate holding company	(m)	111	108
Cash and short term funds with the immediate holding company	(e)	497,106	485,782
Interest receivable from the immediate holding company	(e)	20	39
Rental deposits to the intermediate holding company	(c)	143	143
Amounts due from a fellow subsidiary included in other assets	(n)	657	626

26. RELATED PARTY TRANSACTIONS (Continued)

Notes:

(a) Management fees arose in respect of administrative services provided by the Company to a fellow subsidiary. They were charged based on the costs incurred during the year.

(b) Management fees were paid to the intermediate holding company for the provision of management services, senior management oversight and corporate governance.

(c) Rent paid, rental deposits and building management fee were related to properties rented from the intermediate holding company as the Group's offices/branches during the year.

(d) Rent paid was related to property rented from the immediate holding company as the Group's offices/branches during the year.

(e) The Group placed deposits with the immediate holding company. Interest was received/receivable from the immediate holding company. The balances of the said deposits and interest receivable were included in cash and short term placements and other assets, respectively, in the consolidated statement of financial position.

(f) A bank loan borrowed from a fellow subsidiary was settled during the year. Interest was paid to the fellow subsidiary in respect of the loan during the year.

(g) Commission income was received from the key management personnel of the Group for securities dealing through a subsidiary.

(h) The expenses represented commission and service fee paid for the referrals of stockbroking business from a fellow subsidiary during the year.

(i) During the year, commitment fee was paid to the ultimate holding company in order to obtain standby facilities granted by the ultimate holding company to the Company.

(j) During the year, commitment fee was paid to a fellow subsidiary in order to obtain standby facilities granted by the fellow subsidiary to Public Securities Limited.

(k) Bank service charges were paid to the immediate holding company for banking services provided to the Group during the year.

(l) The Group's short-term employee benefits and post-employment benefit plan for the benefits of employees are detailed in note 6 to the financial statements.

(m) The Group maintained a current account with the ultimate holding company. Balance of the said deposits was included in cash and short term placements in the consolidated statement of financial position.

(n) These balances represented other receivable from a fellow subsidiary.

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial assets and financial liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values of financial instruments which are not carried at fair value in the financial statements.

Liquid or/and very short-term and variable rate financial instruments
Liquid or/and very short-term and variable rate financial instruments include loans and advances and receivables. As these financial instruments are liquid or having a short-term maturity or at variable rate, the carrying amounts are reasonable approximations of their fair values. In the case of loans and unquoted debt securities, their fair values do not reflect changes in their credit quality as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances.

Fixed rate financial instruments
Fixed rate financial instruments include placements with banks and financial institutions, loans and advances and receivables, held-to-collect debt securities at amortised cost and customer deposits. The fair values of these fixed rate financial instruments carried at amortised cost are based on prevailing money-market interest rates or current interest rates offered for similar financial instruments appropriate for the remaining term to maturity. The carrying amounts of such financial instruments are not materially different from their fair values.

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

There were no financial instruments carried at fair value as at 31 December 2019 and 31 December 2018.

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

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

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

28. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The tables below show an analysis of financial assets and financial liabilities analysed by principal according to the periods that they are expected to be recovered or settled. There were no key off-balance sheet items as at 31 December 2019 and 31 December 2018. The Group's contractual undiscounted repayment obligations are shown in the sub-section "Liquidity risk management" in note 29 to the financial statements.

	2019							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Gross cash and short term placements	441,628	317,555	-	-	-	-	-	759,183
Gross loans and advances and receivables	21,416	283,845	481,063	1,689,848	2,136,788	1,449,882	121,670	6,184,512
Gross held-to-collect debt securities at amortised cost	49,998	274,771	-	-	-	-	-	324,769
Other assets	-	140,536	-	-	-	-	38,373	178,909
Total financial assets	513,042	1,016,707	481,063	1,689,848	2,136,788	1,449,882	160,043	7,447,373
Financial liabilities:								
Customer deposits at amortised cost	42,141	1,452,696	2,135,662	1,943,666	1,576	-	-	5,575,741
Lease liabilities	-	3,592	7,275	27,779	30,638	-	-	69,284
Other liabilities	319	181,421	13,344	8,332	9	-	46,431	249,856
Total financial liabilities	42,460	1,637,709	2,156,281	1,979,777	32,223	-	46,431	5,894,881
Net liquidity gap	470,582	(621,002)	(1,675,218)	(289,929)	2,104,565	1,449,882	113,612	1,552,492

	2018							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Gross cash and short term placements	351,248	382,156	-	-	-	-	-	733,404
Gross loans and advances and receivables	20,527	275,347	465,342	1,631,049	2,141,105	1,454,678	118,918	6,106,966
Gross held-to-collect debt securities at amortised cost	99,996	199,882	-	-	-	-	-	299,878
Other assets	-	35,321	-	-	-	-	23,977	59,298
Total financial assets	471,771	892,706	465,342	1,631,049	2,141,105	1,454,678	142,895	7,199,546
Financial liabilities:								
Customer deposits at amortised cost	27,066	1,465,395	2,666,041	1,306,917	-	-	-	5,465,419
Other liabilities	198	69,953	9,182	3,420	-	-	49,212	131,965
Total financial liabilities	27,264	1,535,348	2,675,223	1,310,337	-	-	49,212	5,597,384
Net liquidity gap	444,507	(642,642)	(2,209,881)	320,712	2,141,105	1,454,678	93,683	1,602,162

29. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's business activities comprise deposit taking and financing. These activities expose the Group to a variety of risk, mainly interest rate risk, market risk, credit risk, liquidity risk and operational risk. The Board reviews and approves policies for managing each of these risks and they are summarised below.

Risk Management Structure

The Group's risk management is underpinned by the Group's risk appetite and is subject to the Board's oversight, through the Risk Management Committee ("RMC"), a Board Committee which oversees the establishment of enterprise-wide risk management policies and processes. The RMC is assisted by the specific risk committees, including the Assets and Liabilities Management Committee ("ALCO"), Operational Risk Management Committee ("ORMC"), Credit Committee, Anti-Money Laundering Committee and Compliance Working Group of the Company.

The Group has established systems, policies and procedures for the control and monitoring of interest rate risk, market risk, credit risk, liquidity risk and operational risk, which are approved by the Board and reviewed regularly by the Group's management, and other designated committees or working groups. Material risks are identified and assessed by designated committees and/or working groups before the launch of new products or business activities, and are monitored, documented and controlled against applicable risk limits after the introduction of new products or services or implementation of new business activities. Internal auditors of the Company also perform regular audits to ensure compliance with the policies and procedures.

Interest Rate Risk Management

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

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest Rate Risk Management (Continued)

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

The Board of Directors is ultimately responsible for management of IRRBB and defines the overall risk appetite for management of IRRBB. The RMC is responsible for reviewing IRRBB policies, establishing risk limits in relation to EVE and NII in accordance with risk appetite and maintaining management oversight on IRRBB. The ALCO is responsible for identifying, measuring, evaluating, controlling and monitoring of IRRBB and ensuring the timely implementation of IRRBB management strategy by different departments and business lines in response to changing market conditions. Risk Management Department ("RMD") assesses, monitors and reports interest rate risk exposures daily against approved risk limits to ALCO, and tables key interest rate risk related matters (such as limit excesses) to the ALCO at least monthly, and escalates to the RMC and the Board for further deliberations/ approval of proposed actions as necessary. The Group manages its IRRBB exposures at a desired level and within its risk tolerance thresholds through strategic planning of balance sheet compositions with matching of repricing maturity for its on-balance sheet instruments and/or off-balance sheet derivatives in each significant currency. Currently, the Group does not use interest rate instruments like interest rate swaps and interest rate futures for hedging purpose as the Group is not engaged in complex business transactions involving derivative financial instruments. Where the Group decides to implement a hedging to manage IRRBB, the hedge accounting treatment is required to be made in accordance with the HKFRSs. The Group conducts stress testing via scenario analyses to assess the adverse impact of various interest rate shocks on the Group's EVE and NII, and the outcomes are deliberated in ALCO and RMC meetings. The Group establishes model for IRRBB assessment including yield curve levels' projection of relevant interest-bearing assets and early redemption of loans. Any revisions to the existing IRRBB model or assessment methodology are deliberated by ALCO and RMC for the approval by the Board. Internal Audit Department performs independent reviews on the effectiveness of the IRRBB management system, including but not limited to the implementation/ compliance of the approved policies, monitoring of risk limits, escalation of limit breaches and adequacy of IRRBB assessment methodology.

The Group employs various analytical techniques to measure IRRBB and its impact on EVE and NII on monthly basis, including interest rate repricing profile analysis, and scenario assessment on the Group's EVE and NII under both parallel and non-parallel interest rate shocks.

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest Rate Risk Management (Continued)

For computation of the impact on EVE, the Group adopts the six prescribed standardised interest rate shock scenarios defined by the HKMA (namely parallel up, parallel down, steepener, flattener, short rate up, and short rate down) and internal parallel up and down scenarios at 100 basis points.

For computation of the impact on NII over the next twelve months, the Group adopts the standardised and internal parallel up or down scenarios as mentioned above and also the two prescribed standardised basis risk scenarios defined by the HKMA as below:

Scenario 1: All rates except for fixed and managed rates on interest rate-sensitive assets are subject to the parallel up shock; and

Scenario 2: Managed rates on interest rate-sensitive assets are subject to the parallel down shock while other rates remain unchanged.

The key modeling assumptions used by the Group in EVE and NII calculation include the followings:

(i) For EVE computation, commercial margins and other spread components have been excluded in the cash flows used in the computation and discount rate.

(ii) The repricing maturity of non-maturity deposits is determined based on the earliest date on which their interest rates can be adjusted. Based on such assumption, the repricing maturity of all non-maturity deposits is determined to be one day.

(iii) Conditional prepayment rates have been computed for the fixed-rate retail loan products based on historical data of past two years or more. Retail term deposits are assumed not subject to early redemption risk given the material early withdrawal penalty imposed by the Group.

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

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest Rate Risk Management (Continued)

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

Scenario	EVE HK$'000	NII HK$'000
Parallel up	(63,707)	(8,924)
Parallel down	59,329	6,462
Steepener	12,801	5,648
Flattener	(21,127)	(4,952)
Short rate up	(45,861)	(9,569)
Short rate down	42,879	6,626

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

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market Risk Management

(a) Currency risk

Currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk positions arise from foreign exchange dealings. All foreign exchange positions are managed by Accounts Department within limits approved by the Board.

The Group has limited foreign currency risk as the Group's assets and liabilities were mainly denominated in HKD for the year ended 31 December 2019 and 2018. Directors considered that currency risk was insignificant to the Group. Accordingly, no quantitative market risk disclosures for currency risk have been made.

(b) Price risk

Price risk is the risk to the Group's earnings and capital due to changes in the prices of securities, including debt securities and equities.

The Group did not actively trade in financial instruments and in the opinion of the Directors, the price risk related to trading activities to which the Group was exposed was not material. Accordingly, no quantitative market risk disclosures for price risk have been made.

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit Risk Management

Credit risk is the risk that a customer or counterparty in a transaction may default. It arises from the lending and other activities undertaken by the Group.

The Group has a credit risk management process to measure, monitor and control credit risk. Its credit policy defines the credit extension and measurement criteria, the credit review, approval and monitoring processes, and the loan classification and provisioning systems. It has a hierarchy of credit authority which approves credit in compliance with the Group's credit policy. Credit risk exposures are measured and monitored against credit limits and other control limits (such as connected exposures, large exposures and risk concentration limits approved by the respective Boards or dedicated committees). Segregation of duties in key credit functions is in place to ensure separate credit control and monitoring. Management and recovery of problem credits are handled by an independent work-out team.

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

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

Compliance Department conducts compliance test at selected business units on identified high risk areas for adherence to regulatory and operational requirements and credit policies.

Credit Committee monitors the quality of financial assets which are neither past due nor impaired by financial performance indicators (such as the loan-to-value ratio, debts servicing ratio, financial soundness of borrowers and personal guarantees) through meeting discussions and management reports. Loan borrowers subject to legal proceedings, negative comments from other counterparties and rescheduled arrangements are put under watch lists or under the "special mention" grade for management oversight.

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit Risk Management (Continued)

Credit Committee also monitors the quality of past due or impaired financial assets by internal grading comprising “substandard”, “doubtful” and “loss” accounts through meeting discussions and management reports. Impaired financial assets include those subject to personal bankruptcy petitions, corporate winding-up and rescheduled arrangements.

RMC is responsible for reviewing and assessing the adequacy of risk management framework for identifying, measuring, monitoring and controlling the credit risk of existing and new products, and reviewing credit risk management policies and credit risk tolerance limits.

The Group mitigates credit risk by credit protection provided by guarantors and by loan collateral such as customer deposits, properties, taxi licences and vehicles.

The “Neither past due nor impaired loans and advances and receivables” are shown in note 12 to the financial statements.

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

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

	2019 HK$’000	2018 HK$’000
Loan commitments	20,517	23,066

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management

Liquidity risk is the risk that the Group cannot meet its current obligations. Major sources of liquidity risk of the Group are the early or unexpected withdrawals of deposits in cash outflow and the delay in cash inflow from loan repayments. To manage liquidity risk, the Group has established a liquidity risk management framework which incorporates liquidity risk tolerance, management oversight on liquidity risk, liquidity risk and funding strategy, risk related metrics and tools for liquidity risk management, internal liquidity risk pricing, and the manner of reporting significant matters. The major objectives of liquidity risk management framework are to (i) specify the roles and responsibilities of relevant parties on liquidity risk management, (ii) identify, measure and control liquidity risk exposures with proper implementation of funding strategies, (iii) effectively report significant risk related matters for management oversight, and (iv) manage the liquidity profile within risk tolerance. The liquidity risk management framework is cascaded to all business lines to ensure a consistent liquidity risk strategy, policies and practices across the Group. Liquidity risk related policies are reviewed by senior management and dedicated committees, and significant changes in such policies are approved by the Board or committees delegated by the Board.

ALCO monitors the liquidity position as part of the ongoing management of assets and liabilities, and sets up trigger limits to monitor liquidity risk. It also closely monitors the liquidity of the subsidiaries on a periodic basis to ensure that the liquidity structure of the subsidiaries' assets, liabilities and commitments can meet their funding needs, and that internal liquidity trigger limits are complied with.

Accounts Department is responsible for the centralised implementation of the strategies and policies approved by the dedicated committees and the Board, and developing operational procedures and controls to ensure the compliance with the aforesaid policies and to minimise operational disruptions in case of a liquidity crisis.

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management (Continued)

RMD is responsible for day-to-day monitoring of liquidity maintenance ratio, loans to deposits ratio, concentration risk related ratios and other liquidity risk related ratios coupled with the use of cash-flow projections, maturity ladder, stress-testing methodologies and other applicable risk assessment tools and metrics to detect early warning signals and identify vulnerabilities to potential liquidity risk on forward-looking basis with the objective of ensuring different types of liquidity risks of the Group are appropriately identified, measured, assessed and reported. It also carries out analysis based on risk-based management reports, summarise the data from those reports and presents the key liquidity information of the Group and key business lines to ALCO on a regular (at least monthly) basis. In case of significant issues, such as serious limit excesses or breaches or early warning signals of potential severe impact are identified from the aforesaid management reports or market information obtained from other business units, a designated ALCO member will convene a meeting (involving senior management members) to discuss risk related matters and propose actions to ALCO whenever necessary. A high level summary of liquidity risk performance will be presented by ALCO to RMC and the Board.

The liquidity risk related metrics include at least liquidity maintenance ratio (with internal risk tolerance higher than the statutory liquidity maintenance ratio); cash-flow mismatches under normal and different stress scenarios; concentration related limits of deposits and other funding sources, and maturity profile of major assets and liabilities (including on-balance sheet and off-balance sheet items). The systems and procedures are in place to measure and manage liquidity risk by cash-flow projections in both baseline and stressed scenario arising from off-balance sheet exposures and contingent funding obligations. In baseline scenario, expected cash outflow is derived from the aforesaid exposures and obligations including potential drawdowns of unused committed facilities; uncommitted facilities and other contingent obligations with regard to not only the contractual terms in agreements with customers but also the manner of past months' utilization and genuine drawdowns of the credit facilities, customer relationships and reputational risk perspectives. In stressed scenario, the utilization and drawdowns of credit facilities are expected to escalate to some extent.

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management (Continued)

The funding strategies of the Group are to (i) diversify funding sources for mitigating liquidity risk exposures; (ii) minimise disruptions due to operational issues such as transfer of liquidity across group entities; (iii) ensure contingency funding is available to the Group; and (iv) maintain sufficient liquidity cushion to meet critical liquidity needs such as loan commitments and deposit withdrawals in stressed situations. The Group establishes concentration limits of funding sources taking into account the risk profile of the Group. For instance, intra-group funding and funding from the largest funding provider are restricted to be not more than 10% and 5% of total funding sources respectively to reduce reliance on single source of funding. Medium and long term funding is maintained at a level of at least 20% of total funding sources to pursue stable funding structure.

Contingency funding plan is formulated to address liquidity needs at different stages including the mechanism for the detection of early warning signals of potential crisis at early stage and obtaining of emergency funding in bank-run scenario at later stage. Designated roles and responsibilities of Crisis Management Team, departments and business units and their emergency contact information are documented clearly in the contingency funding plan as part of business continuity planning, and contingency funding measures are in place to set priorities of funding arrangements with counterparties, to set procedures for intraday liquidity risk management and intra-group funding support, to manage media relationship and to communicate with internal and external parties during a liquidity crisis. The stress-testing results are updated and reported to senior management regularly and the results such as survival period for positive cash-flow mismatches are used in contingency funding planning and determination of the required level of liquidity cushion. Based on the results of liquidity stress-testing, standby facilities and liquid assets are maintained to provide liquidity to meet unexpected and material cash outflows in stressed situations.

The Group maintains sufficient liquidity cushion comprising mainly cash and treasury bills issued by eligible central governments to address critical and emergent liquidity needs on intraday basis and over other different time horizons. The Group is not subject to particular collateral arrangements or requirements in contracts in case there is a credit rating downgrade of entities within the Group.

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management (Continued)

Apart from cash-flow projections under the normal scenario to manage liquidity under different time horizons, different stress scenarios such as institution-specific stress scenario, the general market stress scenario and the combination of such scenarios with assumptions are set and reviewed by dedicated committees and approved by the Board. Under the institution-specific stress scenario, loan repayments from some customers are assumed to be delayed. The projected cash inflow would be reduced by the amount of retail loan delinquencies. Regarding cash-outflow projection, part of undrawn loan facilities are not to be utilised by borrowers or honoured by the Group. The core deposits ratio would decrease as there would be fewer renewals of fixed deposits on the contractual maturity dates. In the general market stress scenario, some undrawn banking facilities are not to be honoured upon drawdown as some bank counterparties will not have sufficient liquidity to honour their obligations in market. The Group may pledge or liquidate its liquid assets such as treasury bills issued by eligible central governments to secure funding to address potential liquidity crisis. Liquidity stress-tests are conducted regularly (at least monthly) and the results are utilised for part of contingency funding plan or for providing insights to management about the latest liquidity position of the Group.

Maturity analysis of financial liabilities, based on the contractual undiscounted cash flows, is as follows:

	2019							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Customer deposits at amortised cost	42,460	1,468,458	2,156,923	1,972,243	1,627	-	-	5,641,711
Lease liabilities	-	3,592	7,275	27,779	30,638	-	-	69,284
Other liabilities	-	167,031	1,557	1,370	-	-	46,431	216,389
Gross loan commitments	20,516	-	-	-	-	-	-	20,516
	62,976	1,639,081	2,165,755	2,001,392	32,265	-	46,431	5,947,900

	2018							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Customer deposits at amortised cost	27,264	1,476,967	2,685,504	1,323,932	-	-	-	5,513,667
Other liabilities	-	59,717	-	-	-	-	49,212	108,929
Gross loan commitments	23,066	-	-	-	-	-	-	23,066
	50,330	1,536,684	2,685,504	1,323,932	-	-	49,212	5,645,662

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management (Continued)

Regulatory liquidity ratio

Pursuant to section 97H of the Hong Kong Banking Ordinance and Rule 7 of the Banking (Liquidity) Rules, the Company is required to comply with the liquidity maintenance ratio requirement.

	2019	2018
Average liquidity maintenance ratio	73.26%	56.1%

The average liquidity maintenance ratio is computed on a solo basis using the arithmetic mean of each calendar month's average liquidity maintenance ratio as reported in the return relating to the liquidity position submitted to the HKMA.

Liquidity exposures and funding needs are measured and assessed at the level of individual legal entities (i.e. the Company and its core operating subsidiaries). Pursuant to the HKMA/SFC's requirements, the transferability of liquidity of the Company and its operating subsidiaries takes into account the need of compliance with trigger points of liquidity related ratios and minimum liquidity capital level; and other legal and regulatory limitations such as limits of connected exposures and capital related ratios.

Operational Risk Management

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

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

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management

Capital of the Group for regulatory and risk management purposes includes share capital, reserves, retained profits and regulatory reserve. Accounts Department is responsible for monitoring the amount of the capital base and capital adequacy ratios against trigger limits and for risk exposures and ensuring compliance with relevant statutory limits, taking into account business growth, dividend payouts and other relevant factors.

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

Capital adequacy ratios

The capital adequacy ratios of the Company are computed in accordance with the provisions of the Banking (Amendment) Ordinance 2012 relating to Basel III capital standards and the amended Capital Rules. The Company has adopted the standardised approach for the calculation of credit risk-weighted exposures, market risk-weighted exposures and operational risk-weighted exposures. The Company is granted an exemption by the HKMA for the calculation of market risk exposures which are immaterial to the Company.

	31 December 2019	31 December 2018
CET1 Capital Ratio	20.9%	21.2%
Tier 1 Capital Ratio	20.9%	21.2%
Total Capital Ratio	22.0%	22.3%

The above capital ratios are higher than the minimum capital ratios required by the HKMA. The capital adequacy ratios above are calculated after the deduction of proposed dividends.

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

Capital disclosures

The components of capital base include the following items:

	2019 HK$'000	2018 HK$'000
CET1 capital instruments	671,038	671,038
Retained earnings	565,848	568,303
Disclosed reserves	-	-
CET1 capital before deduction	1,236,886	1,239,341
Deduct:		
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	(11,022)	(10,207)
Regulatory reserve for general banking risk	-	-
Deferred tax assets in excess of deferred tax liabilities	(16,820)	(24,417)
CET1 capital after deduction	1,209,044	1,204,717
Additional Tier 1 capital	-	-
Tier 1 capital after deductions	1,209,044	1,204,717
Reserve attributable to fair value gains	4,960	4,593
Regulatory reserve for general banking risk	-	-
Collective provisions	56,457	55,193
	56,457	55,193
Tier 2 capital	61,417	59,786
Capital base	1,270,461	1,264,503
Total risk-weighted assets	5,776,634	5,669,662

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

Capital conservation buffer (CCB)

The Company is subject to the 2.5% CCB ratio which has been phased-in from 2016. The applicable CCB ratio effective from 1 January 2019 is 2.5%.

Countercyclical capital buffer (CCyB)

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

The Company has reserved a capital buffer for the implementation of the CCyB ratio, inclusive of the CCyB ratio of 2% to the private sector credit exposures in Hong Kong.

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

Jurisdiction ("J")	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK$'000	CCyB ratio %	CCyB amount HK$'000
As at 31 December 2019				
Hong Kong	2.000	4,411,172	2.000	88,223

Jurisdiction ("J")	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK$'000	CCyB ratio %	CCyB amount HK$'000
As at 31 December 2018				
Hong Kong	1.875	4,311,308	1.875	80,837

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

Leverage ratio

The leverage ratio is introduced into the Basel III framework as a non-risk-based backstop limit to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, and introduce additional safeguards against model risk and measurement errors. The ratio is a volume-based measure calculated as Basel III Tier 1 capital divided by total on-balance sheet and off-balance sheet exposures with reference to the Completion Instruction of the Quarterly Template on Leverage Ratio.

	31 December 2019 HK$'000	31 December 2018 HK$'000
Tier 1 Capital	1,209,044	1,204,717
Exposure Measure for Leverage Ratio	7,187,239	7,008,884
Leverage Ratio	16.8%	17.2%

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

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

Risk exposures

	2019					
	Exposures*			Risk-weighted amounts		
Class of exposures	Rated#	Unrated	Total	Rated	Unrated	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
On-balance sheet:						
Sovereign	324,769	-	324,769	-	-	-
Bank	526,807	-	526,807	105,361	-	105,361
Corporate	-	10,146	10,146	-	10,146	10,146
Cash items	-	19,356	19,356	-	-	-
Regulatory retail	-	4,948,866	4,948,866	-	3,711,650	3,711,650
Residential mortgage loan	-	1,103,346	1,103,346	-	386,171	386,171
Other non-past due	-	198,298	198,298	-	213,463	213,463
Past due	-	59,828	59,828	-	89,742	89,742
Off-balance sheet:						
Other off-balance sheet items	-	20,516	20,516	-	-	-
	851,576	6,360,356	7,211,932	105,361	4,411,172	4,516,533

	2018					
	Exposures*			Risk-weighted amounts		
Class of exposures	Rated#	Unrated	Total	Rated	Unrated	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
On-balance sheet:						
Sovereign	299,878	-	299,878	-	-	-
Bank	520,853	-	520,853	104,171	-	104,171
Corporate	-	20,624	20,624	-	20,624	20,624
Cash items	-	19,311	19,311	-	-	-
Regulatory retail	-	4,924,847	4,924,847	-	3,693,635	3,693,635
Residential mortgage loan	-	1,041,178	1,041,178	-	364,412	364,412
Other non-past due	-	118,634	118,634	-	133,799	133,799
Past due	-	66,805	66,805	-	98,838	98,838
Off-balance sheet:						
Other off-balance sheet items	-	23,066	23,066	-	-	-
	820,731	6,214,465	7,035,196	104,171	4,311,308	4,415,479

The Company had no credit exposures that were risk-weighted at 1250% at 31 December 2019 (2018: Nil).

The Company did not enter into over-the-counter ("OTC") derivative transactions during 2019 and 2018.

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

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

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

Risk exposures (Continued)

	31 December 2019		31 December 2018	
	Risk-weighted exposures HK$'000	Capital requirements/ charge HK$'000	Risk-weighted exposures HK$'000	Capital requirements/ charge HK$'000
Credit risk	4,516,533	361,323	4,415,479	353,238
Market risk	-	-	-	-
Operational risk	1,341,163	107,293	1,333,813	106,705
Deductions	(81,062)		(79,630)	
	5,776,634		5,669,662	

For the years ended 31 December 2019 and 31 December 2018, the Company has adopted the standardised approach for calculation of credit risk-weighted exposures, market risk-weighted exposures and operational risk-weighted exposures. The Company is granted an exemption by the HKMA for calculation of market risk exposures which are immaterial to the Company.

As at 31 December 2019 and 31 December 2018, the Company had no securitisation and counterparty credit risk related exposures.

Principal subsidiaries and basis of consolidation

The basis of consolidation for financial accounting purposes is in accordance with HKFRSs, as described in note 2.2 to the financial statements.

The basis of consolidation for regulatory purposes is different from that for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C(1) of the Capital Rules.

The subsidiaries not included in the computation of the capital adequacy ratios of the Company are Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited.

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

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

Capital instruments

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

The disclosure will include the following information:

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

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

	Note	2019 HK$'000	2018 HK$'000
CET1 capital instruments issued by the Company			
Ordinary shares:			
258,800,000 issued and fully paid ordinary shares	22	671,038	671,038

Pillar 3 disclosures

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

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	Notes	2019 HK$'000	2018 HK$'000
ASSETS			
Cash and short term placements		545,473	538,618
Loans and advances and receivables		5,991,269	5,925,697
Held-to-collect debt securities at amortised cost		324,737	299,848
Investment properties		26,955	26,140
Property and equipment		21,255	18,404
Land held under finance leases		41,174	42,528
Right-of-use assets		67,563	-
Investment in subsidiaries	30(a)	10,110	10,110
Deferred tax assets		21,690	29,160
Other assets		31,423	21,575
TOTAL ASSETS		7,081,649	6,912,080
EQUITY AND LIABILITIES			
LIABILITIES			
Customer deposits at amortised cost		5,575,741	5,465,419
Lease liabilities		68,786	-
Current tax payable		33,429	14,462
Deferred tax liabilities		4,870	4,743
Other liabilities		80,029	70,303
TOTAL LIABILITIES		5,762,855	5,554,927
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital		671,038	671,038
Reserves	30(b)	647,756	686,115
TOTAL EQUITY		1,318,794	1,357,153
TOTAL EQUITY AND LIABILITIES		7,081,649	6,912,080

Tang Wing Chew
Director

Chong Yam Kiang
Director

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

(a) Investments in subsidiaries

Information about the investments in subsidiaries of the Company at the end of the reporting year is as follows:

	2019 HK$'000	2018 HK$'000
Unlisted shares, at cost	10,110	10,110

Particulars of the Company's subsidiaries are shown in note 1 to the financial statements.

(b) Reserves

Information about movement of the reserves of the Company during the reporting year is as follows:

	Note	Retained profits HK$'000
As at 1 January 2018		690,752
Profit for the year		244,453
Dividends paid in respect of previous year		(123,248)
Dividends paid in respect of current year		(125,842)
As at 31 December 2018 (Reported)		686,115
Impact of adopting HKFRS 16	2.4	(3,271)
Restated opening balance under HKFRS 16 as at 1 January 2019		682,844
Profit for the year		196,895
Dividends paid in respect of previous year		(117,811)
Dividends paid in respect of current year		(114,172)
As at 31 December 2019		647,756

31. KEY ELEMENTS OF DISCLOSURE POLICY

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

32. APPROVAL OF THE FINANCIAL STATEMENTS

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

PUBLIC FINANCE LIMITED
大眾財務有限公司

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2019

(A) ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

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

Company

	31 December 2019								
	Gross loans and advances HK$'000	Impairment allowances collectively assessed HK$'000	Impairment allowances specifically assessed HK$'000	New Impairment allowances for loans charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	11,084	169	-	135	-	-	-	-	-
Building and construction, property development and investment									
Property development	-	-	-	-	-	-	-	-	-
Property investment	40,786	4	-	1	-	40,786	100.0	-	-
Civil engineering works	7,739	119	-	73	-	-	-	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	186	3	-	-	-	-	-	-	-
Information technology	-	-	-	-	-	-	-	-	-
Wholesale and retail trade	45,115	678	-	555	47	1,089	2.4	-	-
Transport and transport equipment	674,235	76	-	5	-	673,634	99.9	-	-
Hotels, boarding houses and catering	-	-	-	-	-	-	-	-	-
Financial concerns	-	-	-	-	-	-	-	-	-
Stockbrokers	-	-	-	-	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares	-	-	-	-	-	-	-	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	-	-	-	-	-	-	-	-	-
Loans for the purchase of other residential properties	1,071,628	107	-	31	-	1,071,628	100.0	-	-
Loans for credit card advances	-	-	-	-	-	-	-	-	-
Loans for other business purposes	-	-	-	-	-	-	-	-	-
Loans for other private purposes	4,275,412	127,923	61,552	401,209	312,115	34,097	0.8	121,318	53,208
Trade finance	-	-	-	-	-	-	-	-	-
Other loans and advances	-	-	-	-	-	-	-	-	-
Loans and advances for use outside Hong Kong	13,739	608	290	1,609	1,225	-	-	352	341
Total loans and advances (excluding other receivables)	6,139,924	129,687	61,842	403,618	313,387	1,821,234	29.7	121,670	53,549

PUBLIC FINANCE LIMITED
大眾財務有限公司

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2019

(A) ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

Company

	31 December 2018								
	Gross loans and advances HK$'000	Impairment allowances collectively assessed HK$'000	Impairment allowances specifically assessed HK$'000	New impairment allowances for loans charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	6,724	117	-	108	23	-	-	-	-
Building and construction, property development and investment									
Property development	-	-	-	-	-	-	-	-	-
Property investment	41,326	4	-	5	-	41,326	100.0	-	-
Civil engineering works	11,430	199	-	128	-	-	-	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	378	6	-	7	-	-	-	-	-
Information technology	-	-	-	-	-	-	-	-	-
Wholesale and retail trade	41,573	791	-	520	-	1,790	4.3	-	-
Transport and transport equipment	739,091	84	-	26	-	738,530	99.9	-	-
Hotels, boarding houses and catering	-	-	-	-	-	-	-	-	-
Financial concerns	-	-	-	-	-	-	-	-	-
Stockbrokers	-	-	-	-	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares	-	-	-	-	-	-	-	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	-	-	-	-	-	-	-	-	-
Loans for the purchase of other residential properties	1,007,757	100	-	76	-	1,007,757	100.0	2,740	2,740
Loans for credit card advances	-	-	-	-	-	-	-	-	-
Loans for other business purposes	-	-	-	-	-	-	-	-	-
Loans for other private purposes	4,192,476	125,318	51,984	75,815	297,831	39,180	0.9	116,022	48,949
Trade finance	-	-	-	-	-	-	-	-	-
Other loans and advances	-	-	-	-	-	-	-	-	-
Loans and advances for use outside Hong Kong	21,301	832	129	619	1,373	-	-	156	156
Total loans and advances (excluding other receivables)	6,062,056	127,451	52,113	77,304	299,227	1,828,583	30.2	118,918	51,845

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

(B) MAINLAND ACTIVITIES

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

Type of counterparties	On-balance sheet exposure HK$'000	Off-balance sheet exposure HK$'000	Total HK$'000
As at 31 December 2019			
People's Republic of China ("PRC") nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	4,611	-	4,611
Total	4,611	-	4,611
Total assets after provision	7,081,649		
On-balance sheet exposures as percentage of total assets	0.07%		

Type of counterparties	On-balance sheet exposure HK$'000	Off-balance sheet exposure HK$'000	Total HK$'000
As at 31 December 2018			
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	8,159	-	8,159
Total	8,159	-	8,159
Total assets after provision	6,912,080		
On-balance sheet exposures as percentage of total assets	0.12%		

Note:

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

(C) DISCLOSURE OF THE REMUNERATION SYSTEM

Remuneration Committee

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

As at 31 December 2019, there were four members in the Remuneration Committee and three of them were Independent Non-Executive Directors. The Remuneration Committee was chaired by Mr. Tang Wing Chew, the Independent Non-Executive Co-Chairman of the Company. The other members were Mr. Lee Chin Guan, Mr. Lai Wan and Mr. Quah Poh Keat.

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

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

Name of members	Number of meetings attended in 2019	Attendance rate
Mr. Tang Wing Chew *(Chairman of the Committee)*	1/1	100%
Mr. Lee Chin Guan	1/1	100%
Mr. Lai Wan	1/1	100%
Mr. Quah Poh Keat	1/1	100%

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

(C) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

Remuneration Committee (Continued)

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

Remuneration of Directors

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

Board of Directors	2019 Range HK$	2018 Range HK$
Chairman/Co-Chairman	202,500 to 205,000	202,500 to 205,000
Other Directors	100,000 to 202,500	100,000 to 202,500

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

Design and structure of the remuneration processes

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

The Remuneration Committee of the Company reviews and recommends the remuneration packages of key senior management personnel of the Group in accordance with the authorities and responsibilities as stipulated in its terms of reference to the Board of the Company for approval.

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

(C) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

Design and structure of the remuneration processes (Continued)

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

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

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

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

The Remuneration Policy of the Group

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

(C) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

The Remuneration Policy of the Group (Continued)

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

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

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

(C) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

The Remuneration Policy of the Group (Continued)

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

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

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

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

(C) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

Annual review of remuneration system and policy

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

Remuneration of senior management and key personnel

The aggregate quantitative information on remuneration for the Group's senior management (including the Executive Director who also holds the position of Chief Executive) and key personnel is set out below.

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

Remuneration of senior management*:

	2019 (5 beneficiaries)		2018 (5 beneficiaries)	
	Non-deferred HK$	Deferred HK$	Non-deferred HK$	Deferred HK$
Fixed remuneration				
Cash	7,253,271	-	6,866,180	-
Variable remuneration				
Cash	1,928,970	-	1,957,467	-

* Senior management comprises General Manager/Chief Executive, Alternate Chief Executive, Assistant General Manager, Dealing Director and Information Technology Controller

(C) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

Remuneration of senior management and key personnel (Continued)

Remuneration for key personnel[#]:

	2019 (12 beneficiaries)		2018 (11 beneficiaries)	
	Non-deferred HK$	Deferred HK$	Non-deferred HK$	Deferred HK$
Fixed remuneration				
Cash	7,884,404	-	7,359,570	-
Variable remuneration				
Cash	2,262,091	-	1,930,863	-

[#] Key personnel comprises individual employees whose duties or activities in the course of employment involve the assumption of material risks or the taking on material exposures on behalf of the Group and the key personnel within risk control functions

(ii) No variable remuneration in shares or share-linked instruments was granted during the financial years 2019 and 2018.

(iii) There was no deferred remuneration awarded, paid out and reduced through performance adjustments and there was no outstanding deferred remuneration during the financial years 2019 and 2018.

(iv) No senior management or key personnel had been awarded new sign-on or severance payments or paid guaranteed bonuses during the financial years 2019 and 2018.

(D) CORPORATE GOVERNANCE

The Company is a deposit taking company incorporated in Hong Kong and is under the supervision of the HKMA. The Board is fully committed to adopting and implementing the principles and best practices in corporate governance as set out in the SPM Module CG-1 on "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the HKMA. Specialised committees with clear terms of references and specific authorities delegated by the Board have been set up by the Company.

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

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

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

(D) CORPORATE GOVERNANCE (Continued)

4. Nomination and Remuneration Committee
   Nomination and Remuneration Committee (formerly known as Nomination Committee and Remuneration Committee which were re-organised and combined as one committee with same Chairman and same members on 1 January 2020) is responsible for reviewing and recommending to the Board the overall Remuneration Policy and remuneration packages of the Executive Directors, Chief Executive, senior management and key personnel, and the Remuneration Policy applicable to all employees of the Group; to review the structure, size and composition of the Board and make recommendations of any proposed changes to the Board to complement their corporate strategy; to make recommendations on the appointment, nomination policy, succession planning and any related matters for Directors, Chief Executive, Alternate Chief Executive(s) and senior management. The minutes of Nomination and Remuneration Committee meetings are tabled to the Board for noting. The members of Nomination and Remuneration Committee comprise Non-Executive Directors appointed by the Board, and the majority of them shall be Independent Non-Executive Directors and shall consist of not less than three members. The present members comprise Mr. Tang Wing Chew (Chairman of Nomination and Remuneration Committee), Mr. Lee Chin Guan, Mr. Lai Wan and Mr. Quah Poh Keat.

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

6. Management Committee
   Management Committee is established by the Board to ensure the effectiveness of the daily operations and that the operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved. The members of the Committee comprise the General Manager/Chief Executive, Assistant General Manager, Assistant General Manager (Business), Head of Direct Sales, Manager of Accounts Department, and Zone Managers.

(D) CORPORATE GOVERNANCE (Continued)

7. Credit Committee
   Credit Committee is responsible for making decision on loan applications for all types of loan facilities within its discretionary powers, assisting the Board in formulating policy guidelines for the Company's lending business, and recommending applications for loan facilities exceeding the discretionary powers of Credit Committee to the Board for approval. The members of the Committee comprise the General Manager/Chief Executive, Assistant General Manager, Assistant General Manager (Business) and Head of Business Operations and Administration.

8. Assets and Liabilities Management Committee
   ALCO reviews and assesses the risk profile (including risk tolerance limits and potential material impacts) and statement of financial position structure of the Company, sets out the objectives for the assets and liabilities management function and implements relevant risk management strategy. The Committee monitors and manages the aforesaid matters within a framework of approved policies and limits, and reports to the RMC. The members of ALCO comprise the General Manager/Chief Executive (Chairman of ALCO), Assistant General Manager, Assistant General Manager (Business), Manager of Accounts Department and Manager of Risk Management Department.

9. Human Resources Committee
   Human Resources Committee assists the Board in formulating and implementing human resources policies including staff recruitment, promotion, career development, performance appraisal and remuneration packages of all staff. The members of the Committee comprise the General Manager/Chief Executive, Assistant General Manager, Assistant General Manager (Business) and Human Resources Manager.

10. Information Technology Committee
    Information Technology Committee is responsible for establishing objectives, policies and strategies for the computerisation of the Company, recommending to the Board on major acquisitions of computer hardware and software, and monitoring the progress of the implementation of all information technology related projects. The members of the Committee comprise the General Manager/Chief Executive, Information Technology Controller and Manager of Accounts Department.

(D) CORPORATE GOVERNANCE (Continued)

11. Finance Committee
Finance Committee assists the Board in the financial planning and budgeting process of the business of the Company and the review of the business performance, medium-term financial strategic business plan, statutory and half-year accounts. The members of the Committee comprise the General Manager/Chief Executive, Assistant General Manager, Assistant General Manager (Business) and Manager of Accounts Department.

12. Operational Risk Management Committee
ORMC is responsible for the implementation of the operational risk management framework approved by the Board, and the development of specific policies, processes and procedures for managing operational risk in the material products, activities, processes and systems. The members of ORMC comprise the General Manager/Chief Executive (Chairman of ORMC), Assistant General Manager (Business), Assistant General Manager, Information Technology Controller, Manager of Accounts Department, Head of Business Operations and Administration and Manager of Risk Management Department.

13. Anti-Money Laundering ("AML") Committee
AML Committee is accountable for the supervision of matters relating to money laundering and terrorist financing. The Committee shall assist the Board of the Company in overseeing the management of AML risk with the focus on the second line of defense as well as providing governance and advice to the Company on its policies and procedures designed to identify money laundering/ terrorist financing risk areas where the Company may be exposed. The Committee shall use its professional judgment to guide the Company and to report to the Risk Management Committee. The members of the Committee comprise the General Manager/Chief Executive (Chairman of AML Committee), Assistant General Manager/Alternate Chief Executive, Assistant General Manager (Business), AML Compliance Officer/Alternate AML Compliance Officer, Manager of Fixed Deposit Department, Head of Business Operations and Administration, Zone Manager and Manager of Risk Management Department.

(D) CORPORATE GOVERNANCE (Continued)

14. Business Strategy Steering Committee
    Business Strategy Steering Committee is responsible for establishing effective business strategies to meet corporate goals and objectives taking into account operating conditions in the market and formulating strategic business plans to achieve growth and return, efficiency and competitive advantage in the financial industry. The members of the Committee comprise the General Manager/Chief Executive, Assistant General Manager, Assistant General Manager (Business), Zone Managers and nominated Branch Managers.