

PUBLIC BANK (HONG KONG) LIMITED

Interim Financial Statements
for the six months ended 30 June 2020

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PUBLIC BANK (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

(Website: www.publicbank.com.hk)

INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The Board of Directors (the “Board”) of Public Bank (Hong Kong) Limited (the “Bank”) is pleased to announce the unaudited condensed consolidated results of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2020 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended	
		2020	2019
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Interest income	7	863,096	973,284
Interest expense	7	(249,536)	(273,600)
NET INTEREST INCOME		613,560	699,684
Other operating income	8	126,424	116,304
OPERATING INCOME		739,984	815,988
Operating expenses	9	(428,982)	(439,777)
Changes in fair value of investment properties		(3,224)	18,562
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		307,778	394,773
Credit loss expenses	10	(117,482)	(97,138)
PROFIT BEFORE TAX		190,296	297,635
Tax	11	(34,893)	(50,615)
PROFIT FOR THE PERIOD		155,403	247,020
ATTRIBUTABLE TO:			
Owners of the Bank		155,403	247,020

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended
30 June

2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
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PROFIT FOR THE PERIOD	155,403	247,020
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OTHER COMPREHENSIVE INCOME FOR THE PERIOD

Other comprehensive income to be reclassified
to profit or loss in subsequent periods:

Exchange differences on translating foreign operations,
net of tax

(20,124)	(1,209)
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TOTAL COMPREHENSIVE INCOME FOR THE PERIOD

135,279	245,811
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ATTRIBUTABLE TO:

Owners of the Bank

135,279	245,811
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
	Notes		
ASSETS			
Cash and short term placements	13	4,254,877	4,443,550
Placements with banks and financial institutions maturing after one month but not more than twelve months	14	2,172,641	1,532,536
Derivative financial instruments	28	5,205	15,445
Loans and advances and receivables	15	26,818,733	28,288,280
Equity investments at fair value through other comprehensive income	16	6,804	6,804
Held-to-collect debt securities at amortised cost	17	6,476,755	6,078,760
Deferred tax assets		30,572	34,684
Intangible assets	19	718	718
Property and equipment	20	140,630	124,348
Land held under finance leases	21	172,951	174,818
Right-of-use assets		146,098	169,603
Investment properties	22	104,251	107,475
Goodwill		242,342	242,342
Other assets	18	364,660	375,800
TOTAL ASSETS		40,937,237	41,595,163
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		414,157	787,235
Derivative financial instruments	28	6,480	4,651
Customer deposits at amortised cost	23	33,801,849	33,941,432
Lease liabilities		150,945	173,993
Current tax payable		17,124	63,360
Deferred tax liabilities		18,549	18,179
Other liabilities	18	458,359	581,100
TOTAL LIABILITIES		34,867,463	35,569,950

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
	Notes		
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK			
Share capital	24	2,854,045	2,854,045
Reserves	25	3,215,729	3,171,168
TOTAL EQUITY		6,069,774	6,025,213
TOTAL EQUITY AND LIABILITIES		40,937,237	41,595,163

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		For the six months ended	
		30 June	
		2020	2019
		(Unaudited)	(Unaudited)
	Note	HK\$'000	HK\$'000
TOTAL EQUITY			
Balance at the beginning of the period		6,025,213	5,822,611
Profit for the period		155,403	247,020
Other comprehensive income in translation reserve		(20,124)	(1,209)
Total comprehensive income for the period		135,279	245,811
Dividends paid in respect of previous year	12(b)	(90,718)	(115,520)
Balance at the end of the period		6,069,774	5,952,902

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		For the six months ended	
		30 June	
		2020	2019
		(Unaudited)	(Unaudited)
Notes		HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
	Profit before tax	190,296	297,635
	Adjustments for:		
	Dividend income from listed investments	8 (79)	(69)
	Dividend income from unlisted investments	8 (35)	(35)
	Depreciation of property and equipment and land held under finance leases	9 17,370	14,632
	Decrease/(increase) in fair value of investment properties	3,224	(18,562)
	(Decrease)/increase in credit loss expenses for loans and advances and receivables	(13,926)	5,610
	Net losses on disposal of property and equipment	15	54
	Increase in credit loss expenses for held-to-collect debt securities at amortised cost and bank placements	90	101
	Depreciation of right-of-use assets	48,975	49,441
	Others interest expenses	7 1,859	1,896
	Gain on termination of leases	(676)	(916)
	Payment of dismantling costs	(183)	-
	Exchange differences	(19,565)	(1,182)
	Profits tax paid	(77,225)	(18,036)
	Operating profit before changes in operating assets and liabilities	150,140	330,569
	Decrease in operating assets:		
	(Increase)/decrease in placements with banks and financial institutions	(241,288)	295,332
	Decrease/(increase) in derivative financial instruments	10,240	(5,484)
	Decrease in loans and advances and receivables	1,483,473	723,057
	Increase in held-to-collect debt securities at amortised cost	(398,033)	(431,680)
	Decrease/(increase) in other assets	11,140	(28,617)
		865,532	552,608
	(Decrease)/increase in operating liabilities:		
	(Decrease)/increase in deposits and balances of banks and other financial institutions at amortised cost	(373,078)	125,519
	Decrease in customer deposits at amortised cost	(139,583)	(1,619)
	Increase/(decrease) in derivative financial instruments	1,829	(7,128)
	(Decrease)/increase in other liabilities	(122,787)	59,188
		(633,619)	175,960
	Net cash inflow from operating activities	382,053	1,059,137

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	For the six months ended	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	20	(31,913)	(30,460)
Sales proceeds from fixed assets		113	68
Dividends received from listed investments		79	69
Dividends received from unlisted investments		35	35
Net cash outflow from investing activities		(31,686)	(30,288)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on shares		(90,718)	(115,520)
Repayment of lease liabilities		(49,453)	(50,479)
Net cash outflow from financing activities		(140,171)	(165,999)
NET INCREASE IN CASH AND CASH EQUIVALENTS		210,196	862,850
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		5,027,530	4,103,654
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		5,237,726	4,966,504
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand		1,113,078	1,050,019
Money at call and short notice with an original maturity within three months		3,142,206	3,259,439
Placements with banks and financial institutions with an original maturity within three months		749,380	200,502
Held-to-collect debt securities at amortised cost with an original maturity within three months		233,062	456,544
		5,237,726	4,966,504
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		(325,342)	(229,095)
Interest received		888,772	966,522

NOTES TO INTERIM FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

The Bank is a limited liability company and its registered office is located at 2/F, Public Bank Centre, 120 Des Voeux Road Central, Central, Hong Kong. During the period, the Group's principal activities were the provision of a comprehensive range of commercial and retail banking, financial and related services.

The Bank is a wholly-owned subsidiary of Public Financial Holdings Limited. In the opinion of the Directors, the ultimate holding company of the Bank is Public Bank Berhad, which is incorporated in Malaysia.

Particulars of the Bank'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 Bank		Principal activities
		Direct %	Indirect %	
Public Financial Securities Limited	48,000,000	100	-	Securities brokerage
Public Bank (Nominees) Limited	100,000	100	-	Provision of nominee services
Public Futures Limited	2	100	-	Dormant
Public Finance Limited	671,038,000	100	-	Deposit-taking and financing
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

Note:

Public Credit Limited and Public Pacific Securities Limited were dissolved on 21 January 2020.

NOTES TO INTERIM FINANCIAL STATEMENTS

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in compliance with the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the “HKMA”) and in accordance with the same accounting policies adopted in the Group’s 2019 Annual Report, except for the changes in accounting policies as set out in note 5 below.

The interim financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group’s 2019 Annual Report.

The financial information relating to the year ended 31 December 2019 that is included in the 2020 interim financial statements as comparative information does not constitute the Bank’s statutory annual consolidated audited financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the statutory financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Bank’s external auditors have reported on those financial statements. The Independent Auditor’s Report was unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

3. BASIS OF CONSOLIDATION

The interim condensed consolidated financial statements include the interim financial statements of the Bank and its subsidiaries for the period ended 30 June 2020.

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Bank. 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 Bank 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.

NOTES TO INTERIM FINANCIAL STATEMENTS

3. BASIS OF CONSOLIDATION (Continued)

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

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

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

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

The subsidiaries consolidated for accounting purpose are as follows:

Name	30 June 2020		31 December 2019		Principal activities
	Total assets (Unaudited) HK\$	Total equity (Unaudited) HK\$	Total assets (Audited) HK\$	Total equity (Audited) HK\$	
Public Financial Securities Limited	52,386,083	48,389,526	62,617,005	48,280,299	Securities brokerage
Public Bank (Nominees) Limited	100,000	100,000	100,000	100,000	Provision of nominee services
Public Futures Limited	1	1	1	1	Dormant
Public Finance Limited*	6,602,295,202	1,295,969,471	7,081,648,973	1,318,794,217	Deposit-taking and financing
Public Financial Limited	10,101,371	10,101,371	10,101,371	10,101,371	Investment holding
Public Securities Limited	287,104,592	199,272,990	334,243,164	187,857,261	Securities brokerage
Public Securities (Nominees) Limited	1,121,819	1,120,570	1,122,167	1,119,667	Provision of nominee services

* The financial entity specified by the HKMA to form the basis of consolidation for regulatory reporting purpose in respect of common equity tier 1 (“CET1”) capital ratio, tier 1 capital ratio, total capital ratio, capital conservation buffer (“CCB”) ratio, countercyclical capital buffer (“CCyB”) ratio, leverage ratio, liquidity maintenance ratio and core funding ratio.

Note:

Public Credit Limited and Public Pacific Securities Limited were dissolved on 21 January 2020.

NOTES TO INTERIM FINANCIAL STATEMENTS

4. BASIS OF CAPITAL DISCLOSURES

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

The computation of the consolidated total capital ratio and other regulatory capital ratios of the Group is based on the consolidation of the Bank and Public Finance Limited (“Public Finance”) for regulatory reporting purposes.

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

A portion of retained profits, based on a percentage of gross loans and advances, is set aside as a non-distributable regulatory reserve as part of CET1 capital and is included in the capital base pursuant to the HKMA capital requirements.

The Group has adopted the provisions of the Banking Ordinance relating to the Basel III capital standards and the Banking (Capital) Rules (the “Capital Rules”). The Capital Rules outline the general requirements on regulatory capital ratios, the components of eligible regulatory capital as well as the levels of those ratios at which banking institutions are required to operate. The Capital Rules have been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision. Under the Capital Rules, the required CCB ratio for 2019 and 2020 is 2.5%, whilst the required CCyB ratio for 2019 and 2020 is 2.0% and 1.0%, respectively.

NOTES TO INTERIM FINANCIAL STATEMENTS

5. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which are generally effective for accounting periods beginning on or after 1 January 2020. The Group has adopted the following revised standards for the first time for the interim financial statements:

- Amendments to HKFRS 3 *Definition of a Business*
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7 *Interest Rate Benchmark Reform*
- Amendments to HKAS 1 and HKAS 8 *Definition of Material*
- Amendment to HKFRS 16 *COVID-19 Related Rent Concessions*

Except for the amendments included in Amendments to HKFRS 9, HKAS 39 and HKFRS 7, which are not relevant to the preparation of the Group’s interim condensed consolidated financial statements, the nature and impact of the amendments are described below.

The amendments to HKFRS 3 clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Furthermore, a business can exist without including all of the inputs and processes needed to create outputs. These amendments have no impact on the Group’s financial statements, but may impact future periods should the Group enter into any business combinations.

The amendments to HKAS 1 and HKAS 8 provide a new definition of material that states “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, which provide financial information about a specific reporting entity”.

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments have no impact on the Group’s financial statements, nor are expected to have any future impact to the Group.

NOTES TO INTERIM FINANCIAL STATEMENTS

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

The amendment to HKFRS 16 provides relief to lessees from applying lease modification accounting to coronavirus disease (“COVID-19”) related rent concessions. The relief applies to lessees only. Lessors are required to apply the existing requirements of HKFRS 16. The amendment applies to annual reporting periods beginning on or after 1 June 2020 and early application is permitted.

The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

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

Issued but not yet effective HKFRSs

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

- Amendments to HKFRS 10 and HKAS 28 (2011) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*¹

¹ 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 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.

NOTES TO INTERIM FINANCIAL STATEMENTS

6. SEGMENT INFORMATION

Operating segment information

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

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

NOTES TO INTERIM FINANCIAL STATEMENTS

6. SEGMENT INFORMATION (Continued) Operating segment information (Continued)

The following table discloses the revenue and profit information for operating segments for the six months ended 30 June 2020 and 30 June 2019.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Segment revenue								
External:								
Net interest income/(expense)	613,894	700,091	(334)	(407)	-	-	613,560	699,684
Other operating income:								
Fees and commission income	62,090	72,655	35,967	27,001	-	-	98,057	99,656
Others	24,378	12,892	195	-	3,794	3,756	28,367	16,648
Operating income	700,362	785,638	35,828	26,594	3,794	3,756	739,984	815,988
Operating profit/(loss) after credit loss expenses before tax	176,008	272,206	16,237	13,895	(1,949)	11,534	190,296	297,635
Tax							(34,893)	(50,615)
Profit for the period							155,403	247,020
Other segment information								
Depreciation of property and equipment and land held under finance leases	(17,370)	(14,632)	-	-	-	-	(17,370)	(14,632)
Depreciation of right-of-use assets	(48,975)	(49,441)	-	-	-	-	(48,975)	(49,441)
Changes in fair value of investment properties	-	-	-	-	(3,224)	18,562	(3,224)	18,562
Credit loss expenses	(117,482)	(97,138)	-	-	-	-	(117,482)	(97,138)
Net losses on disposal of property and equipment	(15)	(54)	-	-	-	-	(15)	(54)

NOTES TO INTERIM FINANCIAL STATEMENTS

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table discloses certain assets and liabilities information regarding operating segments as at 30 June 2020 and 31 December 2019.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Segment assets other than intangible assets and goodwill	40,184,384	40,784,531	374,970	425,413	104,251	107,475	40,663,605	41,317,419
Intangible assets	-	-	718	718	-	-	718	718
Goodwill	242,342	242,342	-	-	-	-	242,342	242,342
Segment assets	40,426,726	41,026,873	375,688	426,131	104,251	107,475	40,906,665	41,560,479
Unallocated assets: Deferred tax assets							30,572	34,684
Total assets							40,937,237	41,595,163
Segment liabilities	34,710,744	35,300,157	117,529	184,779	3,517	3,475	34,831,790	35,488,411
Unallocated liabilities: Deferred tax liabilities and tax payable							35,673	81,539
Total liabilities							34,867,463	35,569,950
Other segment information								
Additions to non-current assets – capital expenditure	31,913	48,071	-	-	-	-	31,913	48,071

NOTES TO INTERIM FINANCIAL STATEMENTS

6. SEGMENT INFORMATION (Continued)

Geographical information

Geographical information is analysed by the Group based on the locations of the principal operations of the branches and subsidiaries which are responsible for reporting the results or booking the assets.

The following table discloses the segment revenue information for geographical segments for the six months ended 30 June 2020 and 30 June 2019.

	For the six months ended	
	30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Segment revenue from external customers:		
Hong Kong	677,598	749,205
Mainland China	62,386	66,783
	<u>739,984</u>	<u>815,988</u>

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

The following table discloses the non-current assets information for geographical segments as at 30 June 2020 and 31 December 2019.

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Non-current assets:	785,007	794,154
Hong Kong	21,983	25,150
Mainland China		
	<u>806,990</u>	<u>819,304</u>

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

Operating income or revenue from major customers

Operating income or revenue from transactions with each external customer amounted to less than 10% (2019: less than 10%) of the Group's total operating income or revenue.

NOTES TO INTERIM FINANCIAL STATEMENTS

7. INTEREST INCOME AND EXPENSE

	For the six months ended	
	30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income from:		
Loans and advances and receivables	766,265	842,158
Short term placements and placements with banks	38,096	60,757
Held-to-collect debt securities at amortised cost	58,735	70,369
	863,096	973,284
Interest expense on:		
Deposits from banks and financial institutions	3,929	7,830
Deposits from customers	243,306	263,407
Bank loans	442	467
Others	1,859	1,896
	249,536	273,600

Interest income and interest expense for the six months ended 30 June 2020, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss (“FVPL”), amounted to HK\$863,096,000 and HK\$249,536,000 (2019: HK\$973,284,000 and HK\$273,600,000) respectively.

NOTES TO INTERIM FINANCIAL STATEMENTS

8. OTHER OPERATING INCOME

	For the six months ended	
	30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Fees and commission income:		
Retail and commercial banking	63,151	73,658
Wealth management services, stockbroking and securities management	35,967	27,001
	99,118	100,659
Less: Fees and commission expenses	(1,061)	(1,003)
Net fees and commission income	98,057	99,656
Gross rental income	3,814	3,775
Less: Direct operating expenses	(20)	(19)
Net rental income	3,794	3,756
Gains less losses arising from dealing in foreign currencies	13,159	2,988
Net (losses)/gains on derivative financial instruments	(1,275)	7,877
	11,884	10,865
Net losses on disposal of property and equipment	(15)	(54)
Gain on termination of leases	676	916
Dividend income from listed investments	79	69
Dividend income from unlisted investments	35	35
Government subsidies	11,235	-
Others	679	1,061
	126,424	116,304

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

The government subsidies were granted from the Employment Support Scheme and Subsidy Scheme for the Securities Industry under the Anti-epidemic Fund of the Hong Kong Government, which aim to retain employment and combat COVID-19. As a condition of receiving the subsidies from the Employment Support Scheme, the Group undertakes not to make redundancies by 31 August 2020.

There were no net gains or losses arising from equity investments at fair value through other comprehensive income ("FVOCI"), loans and advances and receivables, financial assets and liabilities measured at amortised cost and financial assets and liabilities designated at FVPL for the six months ended 30 June 2020 and 30 June 2019.

NOTES TO INTERIM FINANCIAL STATEMENTS

8. OTHER OPERATING INCOME (Continued)

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.

9. OPERATING EXPENSES

	For the six months ended	
	30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Staff costs:		
Salaries and other staff costs	244,107	256,875
Pension contributions	13,172	11,843
Less: Forfeited contributions	(50)	(82)
Net contribution to retirement benefit schemes	13,122	11,761
	257,229	268,636
Other operating expenses:		
Depreciation of right-of-use assets	48,975	49,441
Depreciation of property and equipment and land held under finance leases	17,370	14,632
Administrative and general expenses	40,353	40,819
Others	65,055	66,249
Operating expenses before changes in fair value of investment properties	428,982	439,777

As at 30 June 2020 and 30 June 2019, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The credits for the period ended 30 June 2020 and 30 June 2019 arose in respect of staff who left the schemes during the periods.

NOTES TO INTERIM FINANCIAL STATEMENTS

10. CREDIT LOSS EXPENSES

The following tables show the changes in expected credit loss (“ECL”) on financial instruments for the period recorded in the consolidated income statement.

	For the six months ended 30 June 2020			
	(Unaudited)			
		Lifetime expected credit loss not credit impaired (Stage 2)	Lifetime expected credit loss credit impaired (Stage 3)	Total
	12-month expected credit loss (Stage 1) HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net charge for/(write-back of) credit loss expenses:				
- loans and advances	(12,024)	(6,150)	135,887	117,713
- trade bills, accrued interest and other receivables	(384)	(14)	80	(318)
- cash and short term placements	(12)	-	-	(12)
- placements with banks and financial institutions	64	-	-	64
- held-to-collect debt securities at amortised cost	38	-	-	38
- loan commitments	(3)	-	-	(3)
	(12,321)	(6,164)	135,967	117,482

NOTES TO INTERIM FINANCIAL STATEMENTS

10. CREDIT LOSS EXPENSES (Continued)

	For the six months ended 30 June 2019 (Unaudited)			
	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	522	5,367	91,030	96,919
- trade bills, accrued interest and other receivables	101	4	21	126
- cash and short term placements	50	-	-	50
- placements with banks and financial institutions	5	-	-	5
- held-to-collect debt securities at amortised cost	46	-	-	46
- loan commitments	(8)	-	-	(8)
	716	5,371	91,051	97,138

NOTES TO INTERIM FINANCIAL STATEMENTS

11. TAX

	For the six months ended	
	30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax charge:		
Hong Kong	19,476	38,984
Overseas	11,465	12,770
Deferred tax charge/(credit), net	3,952	(1,139)
	34,893	50,615

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

	For the six months ended 30 June 2020					
	(Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	144,021		46,275		190,296	
Tax at the applicable tax rate	23,764	16.5	11,569	25.0	35,333	18.5
Estimated tax effect of net (income)/expenses that are not (taxable)/deductible	(659)	(0.5)	219	0.5	(440)	(0.2)
Tax charge at the Group's effective rate	23,105	16.0	11,788	25.5	34,893	18.3

NOTES TO INTERIM FINANCIAL STATEMENTS

11. TAX (Continued)

	For the six months ended 30 June 2019 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>247,642</u>		<u>49,993</u>		<u>297,635</u>	
Tax at the applicable tax rate	40,861	16.5	12,498	25.0	53,359	17.9
Estimated tax effect of net (income)/expenses that is/are not (taxable)/deductible	<u>(2,796)</u>	<u>(1.1)</u>	<u>52</u>	<u>0.1</u>	<u>(2,744)</u>	<u>(0.9)</u>
Tax charge at the Group's effective rate	<u>38,065</u>	<u>15.4</u>	<u>12,550</u>	<u>25.1</u>	<u>50,615</u>	<u>17.0</u>

12. DIVIDENDS

(a) Dividends attributable to the interim period

	For the six months ended 30 June			
	2020 (Unaudited) HK\$ per ordinary share	2019 (Unaudited) HK\$ per ordinary share	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Interim dividend	<u>4.453</u>	<u>7.451</u>	<u>65,976</u>	<u>110,394</u>

The interim dividend was declared after the interim period and had not been recognised as a liability at the end of the interim period.

NOTES TO INTERIM FINANCIAL STATEMENTS

12. DIVIDENDS (Continued)

(b) Dividends attributable to the previous financial year, approved and paid during the interim period

	For the six months ended 30 June			
	2020 (Unaudited) HK\$ per ordinary share	2019 (Unaudited) HK\$ per ordinary share	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Final dividend in respect of the previous year	6.123	7.797	90,718	115,520

13. CASH AND SHORT TERM PLACEMENTS

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Cash on hand	172,343	239,719
Placements with banks and financial institutions	940,735	888,116
Money at call and short notice	3,142,206	3,316,134
Gross cash and short term placements	4,255,284	4,443,969
Less: Impairment allowances collectively assessed		
As at 1 January 2020 and 2019	(419)	(379)
Credit loss expenses released/(charged) to the consolidated income statement during the period/year	12	(40)
	(407)	(419)
Cash and short term placements	4,254,877	4,443,550

Over 90% (31 December 2019: 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 Investors Service ("Moody's"), an external credit agency.

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

NOTES TO INTERIM FINANCIAL STATEMENTS

14. PLACEMENTS WITH BANKS AND FINANCIAL INSTITUTIONS MATURING AFTER ONE MONTH BUT NOT MORE THAN TWELVE MONTHS

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Gross placements with banks and financial institutions	2,172,858	1,532,689
Less: Impairment allowances collectively assessed		
As at 1 January 2020 and 2019	(153)	(156)
Credit loss expenses (charged)/released to the consolidated income statement during the period/year	(64)	3
	(217)	(153)
Placements with banks and financial institutions	2,172,641	1,532,536

Over 90% (31 December 2019: over 90%) of the placements maturing after one month but not more than twelve months 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 maturing after one month but not more than twelve months and no impairment allowances specifically assessed for such placements accordingly.

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Loans and advances to customers	26,930,152	28,392,106
Trade bills	20,445	34,195
Loans and advances, and trade bills	26,950,597	28,426,301
Accrued interest	69,556	77,192
Other receivables	27,020,153 1,321	28,503,493 1,454
Gross loans and advances and receivables	27,021,474	28,504,947
Less: Impairment allowances*		
- specifically assessed	(73,651)	(69,002)
- collectively assessed	(129,090)	(147,665)
	(202,741)	(216,667)
Loans and advances and receivables	26,818,733	28,288,280

Over 90% (31 December 2019: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (31 December 2019: over 90%) of the collateral for the secured loans and advances and receivables were customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

* The balances also include the impairment allowances of HK\$69,000 and HK\$72,000 on off-balance sheet credit exposures as at 30 June 2020 and 31 December 2019 respectively.

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

Loans and advances and receivables are summarised as follows:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Neither past due nor impaired loans and advances and receivables	26,204,034	27,768,607
Past due but not impaired loans and advances and receivables	611,071	542,407
Credit impaired loans and advances	200,803	189,553
Credit impaired receivables	5,566	4,380
Gross loans and advances and receivables	27,021,474	28,504,947

About 65% (31 December 2019: about 62%) of “Neither past due nor impaired loans and advances and receivables” were property mortgage loans and hire purchase loans secured by properties, taxi licences, public light bus licences and vehicles.

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	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	78,069	0.29	69,725	0.24
One year or less but over six months	16,162	0.06	7,731	0.03
Over one year	35,670	0.13	30,600	0.11
Loans and advances overdue for more than three months	129,901	0.48	108,056	0.38
Rescheduled loans and advances overdue for three months or less	62,149	0.23	67,422	0.24
Impaired loans and advances overdue for three months or less	8,753	0.04	14,075	0.05
Total overdue and impaired loans and advances	200,803	0.75	189,553	0.67

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	393	430
One year or less but over six months	527	508
Over one year	4,614	3,265
Trade bills, accrued interest and other receivables overdue for more than three months	5,534	4,203
Impaired trade bills, accrued interest and other receivables overdue for three months or less	32	177
Total overdue and impaired trade bills, accrued interest and other receivables	5,566	4,380

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

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2020			31 December 2019		
	(Unaudited)			(Audited)		
	Mainland			Mainland		
	Hong Kong	China	Total	Hong Kong	China	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	91,512	43,923	135,435	72,440	39,819	112,259
Impairment allowances specifically assessed	51,991	4	51,995	46,106	4	46,110
Current market value and fair value of collateral			113,447			83,444

(ii) Analysis of impaired loans and advances and receivables

Impaired loans and advances and receivables	162,446	43,923	206,369	154,114	39,819	193,933
Impairment allowances specifically assessed	73,647	4	73,651	68,998	4	69,002
Current market value and fair value of collateral			123,333			113,899

Over 90% (31 December 2019: 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.

NOTES TO INTERIM FINANCIAL STATEMENTS

15. 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:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	<u>113,447</u>	<u>83,444</u>
Covered portion of overdue loans and advances	<u>62,943</u>	<u>50,011</u>
Uncovered portion of overdue loans and advances	<u>66,958</u>	<u>58,045</u>

The assets taken as collateral should satisfy the following criteria:

- The market value of the asset is readily determinable or can be reasonably established and verified.
- The asset is marketable and there exists a readily available secondary market for disposal of the asset.
- The Group's right to repossess the asset is legally enforceable without impediment.
- The Group is able to secure control over the asset if necessary.

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

- Central governments with a grading of Aa3 or above
- Unrated public sector enterprises
- Banks with a grading of Baa2 or above
- Unrated corporations
- Individual shareholders and directors of corporate customers

(d) **Repossessed assets**

As at 30 June 2020, the total value of repossessed assets of the Group amounted to HK\$15,430,000 (31 December 2019: HK\$6,240,000).

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	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	<u>607,088</u>	2.25	539,490	1.90
Trade bills, accrued interest and other receivables overdue for three months or less	<u>3,983</u>		<u>2,917</u>	

NOTES TO INTERIM FINANCIAL STATEMENTS

15. 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:

	30 June 2020 (Unaudited)			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
Gross loans and advances and receivables as at 1 January 2020	28,061,587	249,427	193,933	28,504,947
New loans/financing originated	4,899,324	229	479	4,900,032
Loans/financing derecognised or repaid during the period (other than write-offs)	(6,154,620)	(37,506)	(9,928)	(6,202,054)
Transfer to 12-month expected credit loss (Stage 1)	84,772	(51,482)	(33,290)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(222,179)	224,256	(2,077)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(178,036)	(60,667)	238,703	-
Total transfer between stages	(315,443)	112,107	203,336	-
Write-offs	-	-	(181,451)	(181,451)
As at 30 June 2020	26,490,848	324,257	206,369	27,021,474
Arising from:				
Loans and advances	26,407,994	321,355	200,803	26,930,152
Trade bills, accrued interest and other receivables	82,854	2,902	5,566	91,322
	26,490,848	324,257	206,369	27,021,474

The amount outstanding on financial assets that were written off during the period and are still subject to enforcement action amounted to HK\$149,009,000.

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2019			
	(Audited)			
	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross loans and advances and receivables as at 1 January 2019	29,415,840	172,320	198,355	29,786,515
New loans/financing originated	8,136,994	142	1,325	8,138,461
Loans/financing derecognised or repaid during the year (other than write-offs)	(9,018,740)	(40,742)	(43,914)	(9,103,396)
Transfer to 12-month expected credit loss (Stage 1)	51,973	(25,148)	(26,825)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(176,976)	186,288	(9,312)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(347,504)	(43,433)	390,937	-
Total transfer between stages	(472,507)	117,707	354,800	-
Write-offs	-	-	(316,633)	(316,633)
As at 31 December 2019	28,061,587	249,427	193,933	28,504,947
Arising from:				
Loans and advances	27,955,004	247,549	189,553	28,392,106
Trade bills, accrued interest and other receivables	106,583	1,878	4,380	112,841
	28,061,587	249,427	193,933	28,504,947

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK\$254,390,000.

NOTES TO INTERIM FINANCIAL STATEMENTS

15. 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:

	30 June 2020			
	(Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Internal rating grades:				
Performing				
Pass	26,122,104	-	-	26,122,104
Special mention	368,744	324,257	-	693,001
Non-performing				
Substandard	-	-	135,591	135,591
Doubtful	-	-	19,000	19,000
Loss	-	-	51,778	51,778
Total	26,490,848	324,257	206,369	27,021,474
	31 December 2019			
	(Audited)			
	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Internal rating grades:				
Performing				
Pass	27,888,442	-	-	27,888,442
Special mention	173,145	249,427	-	422,572
Non-performing				
Substandard	-	-	134,448	134,448
Doubtful	-	-	47,632	47,632
Loss	-	-	11,853	11,853
Total	28,061,587	249,427	193,933	28,504,947

NOTES TO INTERIM FINANCIAL STATEMENTS

15. 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:

	30 June 2020 (Unaudited)			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
As at 1 January 2020	109,719	37,946	69,002	216,667
New loans/financing originated	39,158	-	66	39,224
Loans/financing derecognised or repaid during the period (other than write-offs)	(47,133)	(5,488)	(54,381)	(107,002)
Transfer to 12-month expected credit loss (Stage 1)	5,804	(1,010)	(4,794)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(2,169)	2,690	(521)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(6,635)	(27,684)	34,319	-
Total transfer between stages	(3,000)	(26,004)	29,004	-
Impact on period end expected credit loss of exposures transferred between stages during the period	(2,570)	25,269	135,977	158,676
Movements due to changes in credit risk	1,134	59	25,301	26,494
Recoveries	-	-	50,133	50,133
Write-offs	-	-	(181,451)	(181,451)
As at 30 June 2020	97,308	31,782	73,651	202,741
Arising from:				
Loans and advances	95,904	31,771	73,440	201,115
Trade bills, accrued interest and other receivables	1,335	11	211	1,557
Loan commitments	66	-	-	66
Financial guarantees and letters of credit	3	-	-	3
	97,308	31,782	73,651	202,741

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2019			Total HK\$'000
	(Audited)			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
As at 1 January 2019	106,978	29,568	55,936	192,482
New loans/financing originated	77,558	-	34	77,592
Loans/financing derecognised or repaid during the year (other than write-offs)	(69,337)	(5,787)	(125,372)	(200,496)
Transfer to 12-month expected credit loss (Stage 1)	3,486	(532)	(2,954)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(2,374)	2,697	(323)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(9,680)	(23,109)	32,789	-
Total transfer between stages	(8,568)	(20,944)	29,512	-
Impact on year end expected credit loss of exposures transferred between stages during the year	(413)	35,109	281,756	316,452
Movements due to changes in credit risk	3,501	-	25,228	28,729
Recoveries	-	-	118,541	118,541
Write-offs	-	-	(316,633)	(316,633)
As at 31 December 2019	109,719	37,946	69,002	216,667
Arising from:				
Loans and advances	107,928	37,921	68,871	214,720
Trade bills, accrued interest and other receivables	1,719	25	131	1,875
Loan commitments	69	-	-	69
Financial guarantees and letters of credit	3	-	-	3
	109,719	37,946	69,002	216,667

NOTES TO INTERIM FINANCIAL STATEMENTS

15. 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:

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	Minimum lease payments HK\$'000	Present value of minimum lease payments HK\$'000	Minimum lease payments HK\$'000	Present value of minimum lease payments HK\$'000
Amounts receivable under finance leases:				
Within one year	355,750	227,174	435,909	307,461
In the second to fifth years, inclusive	1,010,763	601,570	1,287,254	900,142
Over five years	5,109,157	3,883,784	4,303,929	3,529,219
	6,475,670	4,712,528	6,027,092	4,736,822
Less: Unearned finance income	(1,763,142)		(1,290,270)	
Present value of minimum lease payment receivables	4,712,528		4,736,822	

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

16. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Unlisted equity investments in corporate entity, at fair value:		
At the beginning and the end of the period/year	6,804	6,804

The unlisted investments issued by corporate entity are measured at fair value based on the present value of expected cash flows in the foreseeable future.

NOTES TO INTERIM FINANCIAL STATEMENTS

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

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Certificates of deposit held	3,007,067	2,212,500
Treasury bills and government bonds (including Exchange Fund Bills)	2,210,346	2,473,783
Other debt securities	1,259,990	1,393,087
Gross held-to-collect debt securities at amortised cost	6,477,403	6,079,370
Less: Impairment allowances collectively assessed		
As at 1 January 2020 and 2019	(610)	(623)
Credit loss expenses (charged)/released to the consolidated income statement during the period/year	(38)	13
	(648)	(610)
	6,476,755	6,078,760
Listed or unlisted:		
- Listed in Hong Kong	683,337	1,112,965
- Listed outside Hong Kong	31,810	126,267
- Unlisted	5,762,256	4,840,138
	6,477,403	6,079,370
Analysed by types of issuers:		
- Central governments	2,210,346	2,473,783
- Public sector entities	299,816	199,982
- Banks and other financial institutions	3,967,241	3,405,605
	6,477,403	6,079,370

There were no impairment allowances specifically assessed made against held-to-collect debt securities at amortised cost as at 30 June 2020 and 31 December 2019.

There were neither impaired nor overdue held-to-collect debt securities at amortised cost as at 30 June 2020 and 31 December 2019.

All exposures attributed to the held-to-collect debt securities at amortised cost were rated with a grading of A3 or above based on the credit rating of Moody's as at 30 June 2020 and 31 December 2019.

NOTES TO INTERIM FINANCIAL STATEMENTS

18. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Interest receivables from financial institutions	18,000	36,040
Other debtors, deposits and prepayments	346,015	284,016
Net amount of accounts receivables from Hong Kong Securities Clearing Company Limited ("HKSCC")	645	55,744
	364,660	375,800

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

Other liabilities

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Interest payable	87,557	163,363
Creditors, accruals and other payables	264,926	409,902
Net amount of accounts payable to HKSCC	83,534	7,835
Deferred income - government subsidies	22,342	-
	458,359	581,100

NOTES TO INTERIM FINANCIAL STATEMENTS

19. INTANGIBLE ASSETS

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Cost:		
At the beginning and the end of the period/year	<u>1,923</u>	<u>1,923</u>
Accumulated impairment:		
At the beginning and the end of the period/year	<u>1,205</u>	<u>1,205</u>
Net carrying amount:		
At the beginning and the end of the period/year	<u>718</u>	<u>718</u>

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 five units (31 December 2019: five units) of Stock Exchange Trading Right and one unit (31 December 2019: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

NOTES TO INTERIM FINANCIAL STATEMENTS

20. PROPERTY AND EQUIPMENT

	Buildings (Unaudited) HK\$'000	Leasehold improvement, furniture, fixtures, equipment and motor vehicles (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Cost:			
As at 1 January 2020	22,265	343,710	365,975
Additions	-	31,913	31,913
Disposals/write-off	-	(3,236)	(3,236)
As at 30 June 2020	<u>22,265</u>	<u>372,387</u>	<u>394,652</u>
Accumulated depreciation:			
As at 1 January 2020	8,143	233,484	241,627
Provided during the period	240	15,263	15,503
Disposals/write-off	-	(3,108)	(3,108)
As at 30 June 2020	<u>8,383</u>	<u>245,639</u>	<u>254,022</u>
Net carrying amount:			
As at 30 June 2020	<u>13,882</u>	<u>126,748</u>	<u>140,630</u>

NOTES TO INTERIM FINANCIAL STATEMENTS

20. PROPERTY AND EQUIPMENT (Continued)

	Buildings (Audited) HK\$'000	Leasehold improvement, furniture, fixtures, equipment and motor vehicles (Audited) HK\$'000	Total (Audited) HK\$'000
Cost:			
As at 1 January 2019	20,666	298,130	318,796
Transfer to investment properties	(18)	-	(18)
Transfer from investment properties	1,617	-	1,617
Additions	-	48,071	48,071
Disposals/write-off	-	(2,491)	(2,491)
As at 31 December 2019	22,265	343,710	365,975
Accumulated depreciation:			
As at 1 January 2019	7,701	211,142	218,843
Provided during the year	458	24,660	25,118
Transfer to investment properties	(16)	-	(16)
Disposals/write-off	-	(2,318)	(2,318)
As at 31 December 2019	8,143	233,484	241,627
Net carrying amount:			
As at 31 December 2019	14,122	110,226	124,348

There were no impairment allowances made against the above items of property and equipment as at 30 June 2020 and 31 December 2019. There were no movements in impairment allowances for the period ended 30 June 2020 and for the year ended 31 December 2019.

NOTES TO INTERIM FINANCIAL STATEMENTS

21. LAND HELD UNDER FINANCE LEASES

	HKS'000
Cost:	
As at 1 January 2019 (Audited)	200,861
Transfer to investment properties	(305)
Transfer from investment properties	<u>31,038</u>
As at 31 December 2019, 1 January 2020 (Audited) and 30 June 2020 (Unaudited)	<u>231,594</u>
Accumulated depreciation and impairment:	
As at 1 January 2019 (Audited)	53,250
Transfer to investment properties	(185)
Depreciation provided during the year	<u>3,711</u>
As at 31 December 2019 and 1 January 2020 (Audited)	56,776
Depreciation provided during the period	<u>1,867</u>
As at 30 June 2020 (Unaudited)	<u>58,643</u>
Net carrying amount:	
As at 30 June 2020 (Unaudited)	<u>172,951</u>
As at 31 December 2019 (Audited)	<u>174,818</u>

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.

NOTES TO INTERIM FINANCIAL STATEMENTS

22. INVESTMENT PROPERTIES

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Carrying amount at the beginning of the period/year	107,475	115,930
Transfer to property and equipment	-	(1,617)
Transfer from property and equipment	-	2
Transfer to land held under finance leases	-	(31,038)
Transfer from land held under finance leases	-	120
Changes in fair value recognised in consolidated income statement	(3,224)	24,078
Carrying amount at the end of the period/year	104,251	107,475

The Group's investment properties are situated in Hong Kong and are held under medium-term leases in Hong Kong.

All investment properties were classified under Level 3 in the fair value hierarchy. During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (31 December 2019: Nil). The Group has assessed that the highest and best use of its properties did not differ from their existing use.

As at 30 June 2020, investment properties were revalued according to the revaluation reports issued by C S Surveyors Limited, a firm of independent professionally qualified valuers. Finance and Control Department has discussions with the valuer on the valuation methodology and valuation results at least twice a year when the valuation is performed for interim and annual financial reporting.

NOTES TO INTERIM FINANCIAL STATEMENTS

22. 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:

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	Range HK\$	Weighted average HK\$	Range HK\$	Weighted average HK\$
Price per square metre	80,000 to 563,000	257,000	82,000 to 581,000	264,000

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 27(a) to the interim financial statements.

23. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Demand deposits and current accounts	4,385,106	4,717,733
Savings deposits	6,780,774	6,079,932
Time, call and notice deposits	22,635,969	23,143,767
	33,801,849	33,941,432

24. SHARE CAPITAL

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Issued and fully paid:		
14,816,000 (2019: 14,816,000) ordinary shares	2,854,045	2,854,045

NOTES TO INTERIM FINANCIAL STATEMENTS

25. RESERVES

	Group reconstruction reserve HK\$'000	Capital reserve HK\$'000	Regulatory reserve [#] HK\$'000	Retained profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
As at 1 January 2019	3,065	17,660	296,540	2,639,132	12,169	2,968,566
Profit for the year	-	-	-	443,092	-	443,092
Other comprehensive income	-	-	-	-	(14,576)	(14,576)
Transfer from regulatory reserve to retained profits	-	-	(88,805)	88,805	-	-
Dividends paid in respect of previous year	-	-	-	(115,520)	-	(115,520)
Dividends paid in respect of current year	-	-	-	(110,394)	-	(110,394)
As at 31 December 2019 and 1 January 2020 (Audited)	3,065	17,660	207,735	2,945,115	(2,407)	3,171,168
Profit for the period	-	-	-	155,403	-	155,403
Other comprehensive income	-	-	-	-	(20,124)	(20,124)
Transfer from regulatory reserve to retained profits	-	-	(156,186)	156,186	-	-
Dividends paid in respect of previous year	-	-	-	(90,718)	-	(90,718)
As at 30 June 2020 (Unaudited)	3,065	17,660	51,549	3,165,986	(22,531)	3,215,729

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

NOTES TO INTERIM FINANCIAL STATEMENTS

26. OFF-BALANCE SHEET EXPOSURE

(a) Contingent liabilities, commitments and derivatives

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

	30 June 2020 (Unaudited)				
	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	Credit risk- weighted amount HK\$'000	Positive fair value- assets HK\$'000	Negative fair value- liabilities HK\$'000
Direct credit substitutes	25,402	25,402	22,887	-	-
Transaction-related contingencies	6,449	3,224	775	-	-
Trade-related contingencies	17,639	3,528	1,749	-	-
Forward forward deposits placed	451,753	451,753	90,351	-	-
Forward asset purchases	-	-	-	-	-
	501,243	483,907	115,762	-	-
Derivatives held for trading:					
Foreign exchange rate contracts	937,463	14,579	2,917	5,205	6,480
Other commitments with an original maturity of:					
More than one year	-	-	-	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,636,610	-	-	-	-
	5,075,316	498,486	118,679	5,205	6,480
				30 June 2020 (Unaudited) Contractual amount HK\$'000	

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

9,880

NOTES TO INTERIM FINANCIAL STATEMENTS

26. OFF-BALANCE SHEET EXPOSURE (Continued)

(a) Contingent liabilities, commitments and derivatives (Continued)

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

As at 30 June 2020 and 31 December 2019, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

(b) Derivative financial instruments

The Group uses the following derivative financial instruments:

Currency forwards represent commitments to purchase foreign and domestic currencies, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell a foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of interest rates (for example, fixed rate or floating rate). No exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as used for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risk. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

NOTES TO INTERIM FINANCIAL STATEMENTS

27. LEASE

(a) As lessor

The Group leases its investment properties in note 22 to the interim financial statements under operating lease arrangements, and the terms of the leases range from 1 to 3 years.

As at 30 June 2020 and 31 December 2019, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Within one year	2,341	2,784
In the second to fifth years, inclusive	699	616
	3,040	3,400

(b) As lessee

The Group has entered into certain future lease arrangements with landlords with a lease term of 3 years during the period. As at 30 June 2020 and 31 December 2019, the Group had total future lease payments for leases committed but not yet commenced falling due as follows:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Within one year	1,539	1,271
In the second to fifth years, inclusive	3,818	1,992
	5,357	3,263

NOTES TO INTERIM FINANCIAL STATEMENTS

28. 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 interim 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, held-to-collect debt securities at amortised cost, customer deposits, certificates of deposit issued and unsecured bank loans. 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, deposits from banks and other financial institutions, customer deposits and certificates of deposit issued. 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

The following tables show an analysis of financial instruments carried at fair value by level of the fair value hierarchy:

	30 June 2020 (Unaudited)			Total
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	HK\$'000
Financial assets:				
Derivative financial instruments	-	5,205	-	5,205
Equity investments at fair value through other comprehensive income	-	-	6,804	6,804
	-	5,205	6,804	12,009
Financial liabilities:				
Derivative financial instruments	-	6,480	-	6,480

NOTES TO INTERIM FINANCIAL STATEMENTS

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	31 December 2019			Total HK\$'000
	(Audited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets:				
Derivative financial instruments	-	15,445	-	15,445
Equity investments at fair value through other comprehensive income	-	-	6,804	6,804
	-	15,445	6,804	22,249
Financial liabilities:				
Derivative financial instruments	-	4,651	-	4,651

Level 2 financial instruments comprise forward foreign exchange contracts and currency swaps. These instruments have been measured at fair value based on the forward foreign exchange rates that are quoted in an active market. As at 30 June 2020 and 31 December 2019, the effects of discounting were considered insignificant for the Level 2 financial instruments.

Level 3 financial instruments are measured at fair value based on the present value of expected cash flows in the foreseeable future.

For financial instruments measured at fair value on a recurring basis, the Group determines whether transfer has 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. Finance and Control Department performs the valuation of financial instruments required for financial reporting purposes, including Level 3 fair values, at the end of each reporting period. The impact due to changes in fair value of the Level 3 financial instruments is insignificant to the Group.

For the period ended 30 June 2020 and the year ended 31 December 2019, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the period ended 30 June 2020 and the year ended 31 December 2019, there were no issues and settlements related to the Level 3 financial instruments.

There was no gain or loss and no OCI reported in the consolidated income statement and consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the period ended 30 June 2020 and the year ended 31 December 2019.

For fair value measurement at Level 3, changing one or more of the inputs to the reasonably possible alternative assumptions would not change the fair value significantly.

NOTES TO INTERIM FINANCIAL STATEMENTS

29. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The tables below show an analysis of financial assets and financial liabilities (including key off-balance sheet items) analysed by principal according to the periods that they are expected to be recovered or settled.

	30 June 2020 (Unaudited)							
	Repayable on demand	Up to 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 12 months	Over 1 year but not more than 5 years	Over 5 years	Repayable within an indefinite period	Total
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Financial assets:								
Gross cash and short term placements	1,113,078	3,142,206	-	-	-	-	-	4,255,284
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	1,883,633	289,225	-	-	-	2,172,858
Gross loans and advances and receivables	201,881	2,000,690	833,008	3,158,243	6,968,925	13,652,358	206,369	27,021,474
Equity investments at fair value through other comprehensive income	-	-	-	-	-	-	6,804	6,804
Gross held-to-collect debt securities at amortised cost	-	477,775	781,567	4,408,162	809,899	-	-	6,477,403
Other assets	84	166,047	14,064	43,224	1,504	-	139,737	364,660
Gross foreign exchange contracts	55,363	882,100	-	-	-	-	-	937,463
Total financial assets	1,370,406	6,668,818	3,512,272	7,898,854	7,780,328	13,652,358	352,910	41,235,946
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	46,441	277,716	50,000	40,000	-	-	-	414,157
Customer deposits at amortised cost	11,216,559	6,606,321	11,962,339	4,009,894	6,736	-	-	33,801,849
Lease liabilities	-	7,778	15,336	54,227	65,826	7,778	-	150,945
Other liabilities	2,787	213,112	38,430	14,721	115	-	189,194	458,359
Gross foreign exchange contracts	55,398	883,340	-	-	-	-	-	938,738
Total financial liabilities	11,321,185	7,988,267	12,066,105	4,118,842	72,677	7,778	189,194	35,764,048
Net liquidity gap	(9,950,779)	(1,319,449)	(8,553,833)	3,780,012	7,707,651	13,644,580	163,716	5,471,898

NOTES TO INTERIM FINANCIAL STATEMENTS

29. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

	31 December 2019 (Audited)							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Financial assets:								
Gross cash and short term placements	1,127,835	3,316,134	-	-	-	-	-	4,443,969
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	1,158,967	373,722	-	-	-	1,532,689
Gross loans and advances and receivables	607,579	2,697,457	1,109,274	2,919,286	7,733,480	13,243,938	193,933	28,504,947
Equity investments at fair value through other comprehensive income	-	-	-	-	-	-	6,804	6,804
Gross held-to-collect debt securities at amortised cost	-	896,703	899,327	3,145,272	1,138,068	-	-	6,079,370
Other assets	227	226,216	18,484	48,690	5,314	-	76,869	375,800
Gross foreign exchange contracts	-	522,902	102,926	387,552	-	-	-	1,013,380
Total financial assets	1,735,641	7,659,412	3,288,978	6,874,522	8,876,862	13,243,938	277,606	41,956,959
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	161,350	535,885	90,000	-	-	-	-	787,235
Customer deposits at amortised cost	10,839,806	8,018,572	10,474,590	4,601,386	7,078	-	-	33,941,432
Lease liabilities	-	7,989	15,955	65,705	76,367	7,977	-	173,993
Other liabilities	3,098	276,115	88,347	33,425	113	-	180,002	581,100
Gross foreign exchange contracts	-	512,182	102,907	387,497	-	-	-	1,002,586
Total financial liabilities	11,004,254	9,350,743	10,771,799	5,088,013	83,558	7,977	180,002	36,486,346
Net liquidity gap	(9,268,613)	(1,691,331)	(7,482,821)	1,786,509	8,793,304	13,235,961	97,604	5,470,613

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise customer deposits, bank loans and certificates of deposit issued. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as cash and short term placements, held-to-collect debt securities at amortised cost, loans and advances and receivables, and equity investment at FVOCI, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts held for trading. The purpose is to manage or mitigate currency risk arising from the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, market risk, credit risk, liquidity risk and operational risk.

The Group's business activities comprise retail and commercial banking services. These activities expose the Group to a variety of risks, mainly interest rate risk, market risk, credit risk, liquidity risk and operational risk. The respective Boards of the Bank and Public Finance review and approve 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 respective Boards' oversight, through the Risk Management Committees ("RMCs") of the Bank and Public Finance, which are Board Committees overseeing the establishment of enterprise-wide risk management policies and processes. The RMCs are assisted by the specific risk oversight committees including the Assets and Liabilities Management Committee ("ALCO"), Operational Risk Management Committee ("ORMC"), Credit Committee, Credit Risk Management Committee ("CRMC"), and Anti-Money Laundering and Counter-terrorist Financing and Compliance Committee or equivalent committees with similar functions of the Bank and Public Finance.

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 respective Boards of the Bank and Public Finance and reviewed regularly by their 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 Bank and Public Finance also perform regular audits to ensure compliance with the policies and procedures.

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.

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 Boards of the Bank and Public Finance are ultimately responsible for management of IRRBB and define the overall risk appetite for management of IRRBB. The RMCs are 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 ALCOs are 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 Departments (“RMDs”) assess, monitor and report interest rate risk exposures against approved risk limits and key interest rate risk related matters (such as limit excesses) to the ALCOs at least monthly, and escalate to the RMCs and the Boards 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 ALCOs and RMCs for the approval by the Boards. Internal Audit Departments perform 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.

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

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.

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, commercial banking operations and structural foreign currency exposures. All foreign exchange positions are managed by the Group's Treasury Department within limits approved by the Board of the Bank.

The Group's assets and liabilities are mainly denominated in Hong Kong dollars ("HKD"), United States dollars ("USD"), Renminbi ("RMB") and Australian dollars ("AUD). The Group has limited foreign currency risk as the Group's net foreign currency positions are small, except for net structural position of RMB denominated operating capital.

As at 30 June 2020, if RMB had strengthened or weakened by 100 basis points against HKD with all other variables held constant, the Group's equity would have increased or decreased by HK\$11 million (31 December 2019: HK\$11 million) mainly as a result of foreign exchange impact arising from the net structural position of RMB denominated operating capital.

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(a) Currency risk (Continued)

Foreign currency exposures with a net position which constitutes not less than 10% of the total net position in all foreign currencies of the Bank are as follows:

	Spot assets HK\$'million	Spot liabilities HK\$'million	Forward purchases HK\$'million	Forward sales HK\$'million	Net long/(short) position HK\$'million	Structural assets HK\$'million
As at 30 June 2020 (Unaudited)						
USD	5,432	5,123	297	609	(3)	-
RMB	1,025	1,014	1	1	11	1,095
AUD	796	859	188	127	(2)	-
Others	716	938	409	187	-	-
	7,969	7,934	895	924	6	1,095

	Spot assets HK\$'million	Spot liabilities HK\$'million	Forward purchases HK\$'million	Forward sales HK\$'million	Net short position HK\$'million	Structural assets HK\$'million
As at 31 December 2019 (Audited)						
USD	5,366	4,952	283	710	(13)	-
RMB	1,841	1,853	249	250	(13)	1,119
AUD	853	934	82	4	(3)	-
Others	600	895	324	30	(1)	-
	8,660	8,634	938	994	(30)	1,119

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(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 monitors price risk principally by limits established for transactions and open positions. These limits are reviewed and approved by the respective Boards of the Bank and Public Finance and are monitored on a daily basis.

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.

Credit risk management

Credit risk is the risk that a customer or counterparty in a transaction may default. It arises from the lending, trade finance, treasury 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, 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 exposures 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 of the Bank and Public Finance to evaluate the effectiveness of credit reviews, approval and monitoring processes and to ensure that the established credit policies and procedures are complied with.

Compliance Departments of the Bank and Public Finance conduct compliance test at selected business units on identified high risk areas for adherence to regulatory and operational requirements and credit policies.

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management (Continued)

Credit Committees of the Bank and Public Finance monitor 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.

Credit Committees of the Bank and Public Finance also monitor 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.

RMCs of the Bank and Public Finance are 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. The Committees also review credit risk management policies and credit risk tolerance limits. The RMC of the Bank is assisted by CRMC for discharging its responsibilities on credit risk management issues.

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

The “Neither past due nor impaired loans and advances and receivables” are shown in note 15 to the interim 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.

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 Boards of the Bank and Public Finance have 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 Boards of the Bank and Public Finance or committees delegated by the respective Boards.

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

ALCOs of the Bank and Public Finance monitor the liquidity position as part of the ongoing management of assets and liabilities, and set up trigger limits to monitor liquidity risk. They also closely monitor 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.

Treasury Department of the Bank and a dedicated department of Public Finance are responsible for the centralised implementation of the strategies and policies approved by the dedicated committees and the respective Boards, 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.

RMDs of the Bank and Public Finance are responsible for day-to-day monitoring of liquidity maintenance ratios, loans to deposits ratios, 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. They also carry out analysis based on risk-based management reports, summarise the data from those reports and present the key liquidity information of the Group and key business lines to the respective ALCOs 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 on the Bank or Public Finance are identified from the aforesaid management reports or market information obtained from Treasury Department and 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 the liquidity risk performance of the Bank or Public Finance will be presented by the respective ALCOs to their RMCs and the Boards.

The liquidity risk related metrics of the Bank and Public Finance include at least liquidity maintenance ratios (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; trade related contingencies; issued letters of credit and financial guarantee unrelated to trade related contingencies; and 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' utilisation and genuine drawdowns of the credit facilities; customer relationships and reputational risk perspectives. In stressed scenario, the utilisation and drawdowns of credit facilities are expected to escalate to some extent.

NOTES TO INTERIM FINANCIAL STATEMENTS

30. 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 has established concentration limits of funding sources taking into account the respective risk profiles of the Bank and Public Finance. For instance, intra-group funding and funding from the largest funding provider are restricted to be not more than 15% and 10% 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 source 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 contingency funding plan policy 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 the 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 bills, notes or bonds issued by eligible central governments in a total amount of not less than HK\$2.0 billion 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.

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Apart from cash-flow projections under 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 respective Boards. Under institution-specific stress scenario, loan repayments from some customers are assumed to be delayed. The projected cash inflow would be affected by increased amount of rollover of banking facilities by some corporate customers or reduced by the amount of retail loan delinquencies. Regarding cash-outflow projection, part of undrawn banking facilities are not to be utilised by borrowers or honoured by the Group. The core deposits ratio would decrease as there would be early withdrawals of some fixed deposits before contractual maturity dates or 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 debt securities (including but not limited to treasury bills or notes or bonds 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.

Regulatory liquidity ratios

Pursuant to section 97H of the Hong Kong Banking Ordinance and Rules 7 and 8D of the Banking (Liquidity) Rules, Public Bank (Hong Kong) Group (including the Bank and Public Finance) and the Bank are required to comply with the liquidity maintenance ratio requirement and core funding ratio requirement whilst Public Finance is required to comply with the liquidity maintenance ratio requirement only.

	For the six months ended	
	30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Liquidity Maintenance Ratio		
- Public Bank (Hong Kong) Group	<u>51.3%</u>	49.1%
- The Bank	<u>50.0%</u>	48.1%
- Public Finance	<u>75.8%</u>	65.7%
Core Funding Ratio		
- Public Bank (Hong Kong) Group	<u>134.2%</u>	132.3%
- The Bank	<u>131.2%</u>	129.6%

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Regulatory liquidity ratios (Continued)

The average liquidity maintenance ratio and core funding ratio are computed using the arithmetic mean of each calendar month's average 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 Bank and its core operating subsidiaries) and Mainland China Office (i.e. Shenzhen Branch and its sub-branches). Pursuant to the HKMA/SFC's requirements, the transferability of liquidity of the Bank 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. Pursuant to the requirements of China Banking and Insurance Regulatory Commission, the Mainland China Office of the Bank is required to maintain regulatory liquidity ratios in RMB and foreign currencies of not less than 25%. Due to the foreign exchange controls imposed by the State Administration of Foreign Exchange ("SAFE") in China, cross-border funding flows to and from Mainland China are subject to the supervision and approval of SAFE. In view of the limitation on transferability of liquidity, Mainland China Office has maintained high and sufficient liquidity to meet its business needs. As at 30 June 2020, the liquidity ratios in RMB and foreign currencies of Mainland China Office were more than 100%.

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 monitoring and control of operational risk.

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

Capital of the Group for regulatory and risk management purposes includes share capital, reserves, retained profits, regulatory reserve and subordinated debts, if any. Finance and Control 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 payout 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 ratio 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 consolidated capital adequacy ratios of the Group are computed in accordance with the provisions of the Banking Ordinance relating to Basel III capital standards and the Capital Rules. The Group has adopted the standardised approach for the calculation of credit risk-weighted exposures and market risk-weighted exposures. The Group has adopted the basic indicator approach and the standardised approach for the calculation of operational risk-weighted exposures of the Bank and Public Finance, respectively.

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Consolidated CET1 Capital Ratio	20.3%	19.7%
Consolidated Tier 1 Capital Ratio	20.3%	19.7%
Consolidated Total Capital Ratio	21.1%	20.9%

The above capital ratios are higher than the minimum capital ratios required by the HKMA.

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital disclosures

The components of capital base include the following items:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
CET1 capital instruments	2,854,045	2,854,045
Retained earnings	3,011,323	2,802,593
Disclosed reserves	32,676	208,989
CET1 capital before deduction	5,898,044	5,865,627
Deduct:		
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	(62,960)	(66,184)
Regulatory reserve for general banking risk	(51,549)	(207,735)
Goodwill	(242,342)	(242,342)
Deferred tax assets in excess of deferred tax liabilities	(10,812)	(15,293)
CET1 capital after deduction	5,530,381	5,334,073
Additional Tier 1 capital	-	-
Tier 1 capital after deductions	5,530,381	5,334,073
Reserve attributable to fair value gains	28,332	29,784
Regulatory reserve for general banking risk	51,549	207,735
Collective provisions	130,361	85,559
	181,910	293,294
Tier 2 capital	210,242	323,078
Capital base	5,740,623	5,657,151
Total risk-weighted assets	27,215,381	27,125,207

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital conservation buffer (CCB)

Public Bank (Hong Kong) Group is subject to the 2.5% CCB ratio effective from 1 January 2019.

Countercyclical capital buffer (CCyB)

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

As at 30 June 2020, Public Bank (Hong Kong) Group has reserved a capital buffer, inclusive of CCyB ratio of 1.0 %, 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 30 June 2020 (Unaudited)				
1. Hong Kong	1.000	17,591,409		
2. Mainland China	-	1,856,532		
Total		19,447,941	0.905	175,914

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 (Audited)				
1. Hong Kong	2.000	17,941,038		
2. Mainland China	-	1,953,985		
Total		19,895,023	1.804	358,821

NOTES TO INTERIM FINANCIAL STATEMENTS

30. 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.

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Consolidated Tier 1 Capital	5,530,381	5,334,073
Consolidated Exposure Measure for Leverage Ratio	41,522,119	41,500,374
Consolidated Leverage Ratio	13.3%	12.9%

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 30 June 2020 to be published in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 September 2020.

Principal subsidiaries and basis of consolidation

The basis of consolidation for financial accounting purposes is in accordance with HKFRSs, as described in note 3 to the interim 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 consolidated capital adequacy ratios of the Group are Public Bank (Nominees) Limited, Public Credit Limited (dissolved on 21 January 2020), Public Futures Limited, Public Pacific Securities Limited (dissolved on 21 January 2020), Public Financial Securities Limited, Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited.

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

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital instruments

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

The disclosure will include the following information:

- a description of the main features and full terms and conditions of the Group's capital instruments;
- a detailed breakdown of the Group'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 Group's accounting and regulatory balance sheets, using the standard disclosure template as specified by the HKMA.

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

		30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
	Note		
CET1 capital instruments issued by the Bank			
Ordinary shares:			
14,816,000 issued and fully paid ordinary shares	24	2,854,045	2,854,045

Pillar 3 disclosures

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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(A) ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

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

	30 June 2020									
	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	194,565	784	-	392	-	185,325	95.3	-	-	
Building and construction, property development and investment										
Property development	-	-	-	-	-	-	-	-	-	
Property investment	5,796,790	579	-	24	-	5,796,455	100.0	-	-	
Civil engineering works	190,305	101	-	23	-	104,452	54.9	-	-	
Electricity and gas	-	-	-	-	-	-	-	-	-	
Recreational activities	25,414	4	-	-	-	25,311	99.6	-	-	
Information technology	1,150	-	-	-	-	1,150	100.0	-	-	
Wholesale and retail trade	226,984	817	21	404	-	193,713	85.3	21	21	
Transport and transport equipment	4,673,453	13,660	8,792	3,471	-	4,360,278	93.3	19,220	15,469	
Hotels, boarding houses and catering	87,309	76	-	-	-	84,231	96.5	-	-	
Financial concerns	560,021	56	-	-	-	559,526	99.9	-	-	
Stockbrokers										
Margin lending	31,100	3	-	-	-	29,341	94.3	-	-	
Others	348,356	35	-	14	-	208,356	59.8	-	-	
Non-stockbroking companies and individuals for the purchase of shares										
Margin lending	8,346	1	-	-	-	8,346	100.0	-	-	
Others	418,921	51	-	-	-	418,921	100.0	-	-	
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										
	31,831	3	-	-	-	31,831	100.0	-	-	
Loans for the purchase of other residential properties										
	7,324,550	731	1	20	-	7,324,550	100.0	16,144	14,382	
Loans for credit card advances										
	6,690	17	41	15	37	-	-	41	24	
Loans for other business purposes										
	46,880	5	-	-	-	46,880	100.0	-	-	
Loans for other private purposes										
	4,027,852	109,871	64,288	215,343	180,677	232,225	5.8	125,663	60,326	
Trade finance	451,495	92	-	-	-	443,453	98.2	-	-	
Other loans and advances	76,492	58	-	-	-	74,008	96.8	-	-	
Sub-total	24,528,504	126,944	73,143	219,706	180,714	20,128,352	82.1	161,089	90,222	
Loans and advances for use outside Hong Kong	2,401,648	731	297	1,425	737	2,375,454	98.9	39,714	39,679	
Total loans and advances (excluding trade bills and other receivables)	26,930,152	127,675	73,440	221,131	181,451	22,503,806	83.6	200,803	129,901	

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
(A) ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

	31 December 2019								
				New					
	Gross loans and advances HK\$'000	Impairment allowances collectively assessed HK\$'000	Impairment allowances specifically assessed HK\$'000	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	352,673	492	-	135	364	338,759	96.1	-	-
Building and construction, property development and investment									
Property development	-	-	-	-	-	-	-	-	-
Property investment	5,562,461	556	-	1	-	5,562,415	100.0	3,613	-
Civil engineering works	192,619	140	-	73	-	104,552	54.3	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	27,493	6	-	-	-	27,307	99.3	-	-
Information technology	1,565	-	-	-	-	1,565	100.0	-	-
Wholesale and retail trade	255,053	699	21	555	47	210,722	82.6	21	21
Transport and transport equipment	4,680,716	12,170	6,667	14,117	1,971	4,377,968	93.5	10,646	8,709
Hotels, boarding houses and catering	98,786	94	-	-	-	95,040	96.2	-	-
Financial concerns	1,009,654	101	-	2	-	1,008,921	99.9	-	-
Stockbrokers									
Margin lending	314,100	31	-	-	-	313,908	99.9	-	-
Others	205,746	21	-	21	-	205,746	100.0	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	20,350	2	-	-	-	20,350	100.0	-	-
Others	368,687	51	-	16	-	368,687	100.0	-	-
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									
	38,044	4	-	-	-	38,044	100.0	-	-
Loans for the purchase of other residential properties									
	7,250,579	723	1	32	-	7,250,579	100.0	14,829	9,411
Loans for credit card advances									
	9,270	12	75	75	5	-	-	75	42
Loans for other business purposes									
	47,708	5	-	4	-	47,708	100.0	-	-
Loans for other private purposes									
	4,485,661	129,695	61,799	401,573	313,021	220,855	4.9	121,565	53,382
Trade finance	862,443	120	14	13	-	842,714	97.7	2,302	-
Other loans and advances	89,497	65	-	48	-	86,863	97.1	-	-
Sub-total	25,873,105	144,987	68,577	416,665	315,408	21,122,703	81.6	153,051	71,565
Loans and advances for use outside Hong Kong	2,519,001	862	294	1,874	1,225	2,482,037	98.5	36,502	36,491
Total loans and advances (excluding trade bills and other receivables)	28,392,106	145,849	68,871	418,539	316,633	23,604,740	83.1	189,553	108,056

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.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(B) INTERNATIONAL CLAIMS

The information of international claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties taking into account any recognised risk transfer. In general, recognised risk transfer from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country.

The following tables illustrate the international claims on individual countries or areas taking into account the recognised risk transfer, amounting to 10% or more of the aggregate international claims.

	Banks HK\$'million	Official sector HK\$'million	Non-bank financial institutions HK\$'million	Non- financial private sector HK\$'million	Total HK\$'million
As at 30 June 2020					
1. Developed countries	2,129	4	-	197	2,330
2. Offshore centres, of which	1,693	4	216	2,275	4,188
– Hong Kong	1,189	4	22	1,441	2,656
3. Developing Asia-Pacific, of which	4,732	109	-	2,099	6,940
– China	3,095	109	-	2,046	5,250

	Banks HK\$'million	Official sector HK\$'million	Non-bank financial institutions HK\$'million	Non- financial private sector HK\$'million	Total HK\$'million
As at 31 December 2019					
1. Developed countries	1,920	9	-	550	2,479
2. Offshore centres, of which	1,246	6	217	2,976	4,445
– Hong Kong	1,017	6	23	2,130	3,176
3. Developing Asia-Pacific, of which	4,174	107	-	2,291	6,572
– China	2,740	107	-	2,226	5,073

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**(C) MAINLAND ACTIVITIES**

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

Types of counterparties	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total HK\$'million
As at 30 June 2020			
Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	300	-	300
People's Republic of China ("PRC") nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	387	12	399
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	2	-	2
Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	1,742	-	1,742
Total	2,431	12	2,443
Total assets after provision	36,293		
On-balance sheet exposures as percentage of total assets	6.70%		

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
(C) MAINLAND ACTIVITIES (Continued)

Types of counterparties	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total HK\$'million
As at 31 December 2019			
Central government, central government-owned entities and their subsidiaries and JVs	408	-	408
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	419	-	419
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	4	-	4
Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	1,819	-	1,819
Total	2,650	-	2,650
Total assets after provision	36,225		
On-balance sheet exposures as percentage of total assets	7.32%		

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.

BUSINESS PERFORMANCE

For the six months ended 30 June 2020, the Group recorded a profit after tax of HK\$155.4 million, representing a decrease of HK\$91.6 million or 37.1% as compared to the profit after tax of HK\$247.0 million for the corresponding period in 2019. The decrease in earnings of the Group was attributed to the decrease in net interest income, decrease in fair value of investment properties, and increase in credit loss expense for the period under review.

During the period under review, the Group's total interest income decreased by HK\$110.2 million or 11.3% to HK\$863.1 million, and total interest expense decreased by HK\$24.1 million or 8.8% to HK\$249.5 million. Net interest income decreased by HK\$86.1 million or 12.3% to HK\$613.6 million amidst the low interest rate environment and subdued loan demands. Other operating income of the Group increased by HK\$10.1 million or 8.7% to HK\$126.4 million, mainly due to the reception of government subsidy for employment support and increase in commission income from stockbroking and wealth management service in the period under review.

Fair value of investment properties decreased by HK\$3.2 million during the period under review as compared to a revaluation gain of HK\$18.6 million in the corresponding period of last year.

The Group's operating expenses decreased by HK\$10.8 million or 2.5% to HK\$429.0 million mainly due to the decrease in performance-related staff costs in the period under review.

Credit loss expense increased by HK\$20.4 million or 21.0% to HK\$117.5 million mainly due to increase in impairment allowances for consumer financing loans and advances during the period under review. Impaired loans to total loans ratio increased by 0.08% to 0.75% as at 30 June 2020 from 0.67% as at 31 December 2019.

The Group's total loans and advances (including trade bills) decreased by HK\$1.48 billion or 5.2% to HK\$26.95 billion as at 30 June 2020 from HK\$28.43 billion as at 31 December 2019. The Group's deposits from customers declined marginally by HK\$0.14 billion or 0.4% to HK\$33.80 billion as at 30 June 2020 as compared to the position of 31 December 2019. Total assets of the Group stood at HK\$40.94 billion as at 30 June 2020.

The Group will continue to focus on its retail and commercial banking business and its customer financing business, as well as its stockbroking and wealth management fee based businesses.

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

16 July 2020