大眾金融控股有限公司

PUBLIC FINANCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 626

2019 INTERIM REPORT

EXCELLENCE

IS OUR COMMITMENT

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Non-Executive Chairman
Tan Sri Dato' Sri Dr. Teh Hong Piow (Chairman), also Founder, Chairman Emeritus, Director and Adviser of Public Bank Berhad

Executive Directors
Tan Yoke Kong
Lee Huat Oon

Non-Executive Directors
Quah Poh Keat
Dato' Chang Kat Kiam
Chong Yam Kiang

Independent Non-Executive Directors
Lai Wan (Co-Chairman)
Lee Chin Guan
Tang Wing Chew

JOINT SECRETARIES
Tan Yoke Kong
Chan Sau Kuen

REGISTERED OFFICE
Clarendon House
Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
2/F, Public Bank Centre
120 Des Voeux Road Central
Central, Hong Kong
Telephone : (852) 2541 9222
Facsimile : (852) 2815 9232
Website : www.publicfinancial.com.hk

SHARE LISTING
Main Board of The Stock Exchange of Hong Kong Limited
Stock Code : 626

PRINCIPAL REGISTRAR
MUFG Fund Services (Bermuda) Limited
4th Floor North, Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

HONG KONG BRANCH REGISTRAR
Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone : (852) 2980 1333
Facsimile : (852) 2810 8185

AUDITORS
Ernst & Young
Certified Public Accountants

Condensed Consolidated Income Statement

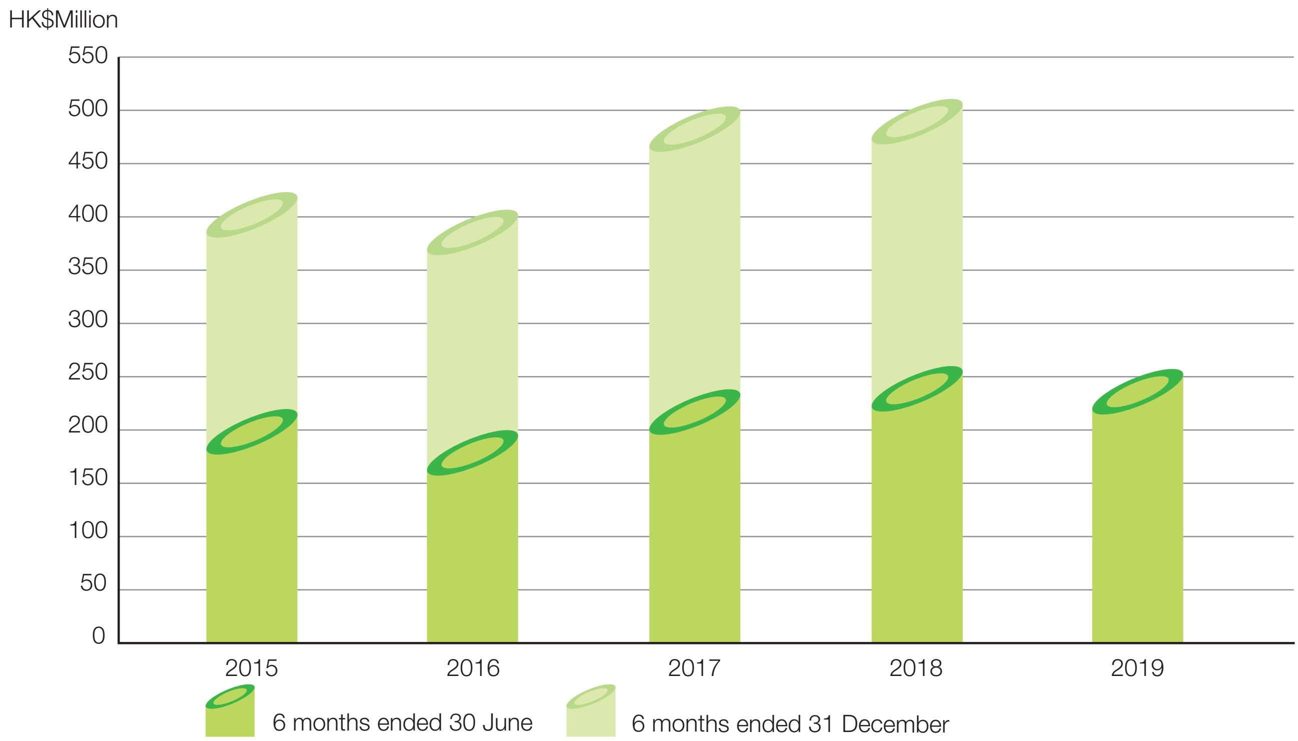
	Notes	For the six months ended 30 June 2019 (Unaudited) HK$'000	2018 (Unaudited) HK$'000
Interest income	7	**985,418**	916,142
Interest expense	7	**(295,969)**	(200,947)
NET INTEREST INCOME		**689,449**	715,195
Other operating income	8	**120,421**	117,622
OPERATING INCOME		**809,870**	832,817
Operating expenses	9	**(439,289)**	(437,332)
Changes in fair value of investment properties		**35,250**	3,512
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		**405,831**	398,997
Credit loss expenses	10	**(96,809)**	(78,670)
PROFIT BEFORE TAX		**309,022**	320,327
Tax	11	**(52,052)**	(59,446)
PROFIT FOR THE PERIOD		**256,970**	260,881
ATTRIBUTABLE TO:			
Owners of the Company		**256,970**	260,881
EARNINGS PER SHARE (HK$)	13		
Basic		**0.234**	0.238
Diluted		**0.234**	0.238

Condensed Consolidated Statement of Comprehensive Income

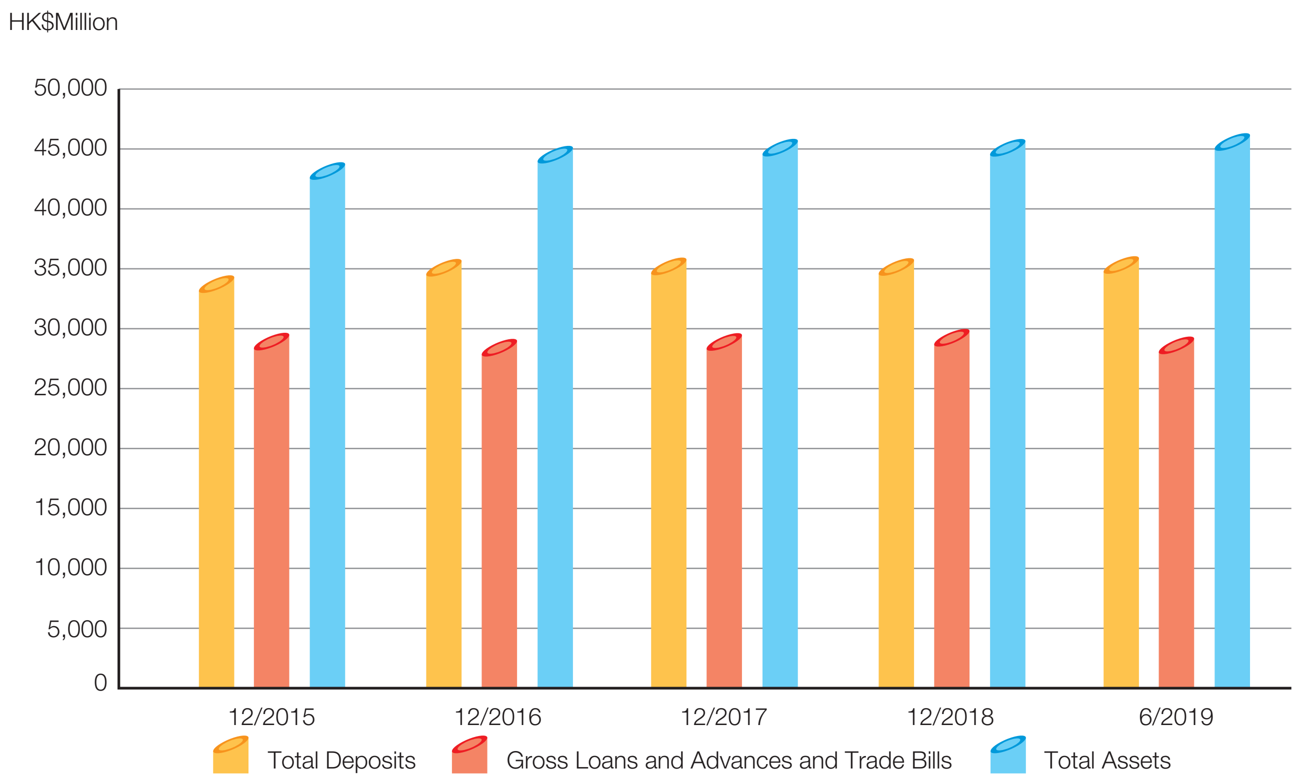
	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT FOR THE PERIOD	**256,970**	260,881
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations, net of tax	**(1,209)**	(16,831)
Surplus on revaluation of properties	**3,982**	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**259,743**	244,050
ATTRIBUTABLE TO:		
Owners of the Company	**259,743**	244,050

Five-year Financial Summary

PROFIT



FINANCIAL POSITION



Condensed Consolidated Statement of Financial Position

	Notes	**30 June 2019 (Unaudited) HK$'000**	31 December 2018 (Audited) HK$'000
ASSETS			
Cash and short term placements	14	**4,442,751**	3,953,773
Placements with banks and financial institutions maturing after one month but not more than twelve months	15	**1,610,207**	1,556,342
Derivative financial instruments		**8,025**	2,541
Loans and advances and receivables	16	**29,169,627**	29,877,579
Equity investments at fair value through other comprehensive income	17	**6,804**	6,804
Held-to-collect debt securities at amortised cost	18	**6,658,915**	6,202,949
Investment properties	19	**396,661**	345,715
Property and equipment	20	**161,609**	145,090
Land held under finance leases	21	**660,928**	676,073
Right-of-use assets		**116,973**	–
Deferred tax assets		**43,919**	41,338
Tax recoverable		**36**	1,222
Goodwill		**2,774,403**	2,774,403
Intangible assets	22	**718**	718
Other assets	23	**199,558**	166,343
TOTAL ASSETS		**46,251,134**	45,750,890
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**698,231**	572,712
Derivative financial instruments		**147**	7,275
Customer deposits at amortised cost	24	**35,280,143**	35,284,322
Dividends payable		**54,896**	186,646
Unsecured bank loans at amortised cost	25	**1,546,028**	1,444,614
Lease liabilities		**124,822**	–
Current tax payable		**49,001**	15,298
Deferred tax liabilities		**36,517**	36,350
Other liabilities	23	**515,279**	455,863
TOTAL LIABILITIES		**38,305,064**	38,003,080
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		**109,792**	109,792
Reserves	26	**7,836,278**	7,638,018
TOTAL EQUITY		**7,946,070**	7,747,810
TOTAL EQUITY AND LIABILITIES		**46,251,134**	45,750,890

Condensed Consolidated Statement of Changes in Equity

	Notes	For the six months ended 30 June 2019 (Unaudited) HK$'000	2018 (Unaudited) HK$'000
TOTAL EQUITY			
As at 1 January (Reported)		**7,747,810**	7,525,700
Impact of adopting HKFRS 16	5	**(6,587)**	–
Restated opening balance under HKFRS 16		**7,741,223**	7,525,700
Profit for the period		**256,970**	260,881
Other comprehensive income in translation reserve		**(1,209)**	(16,831)
Other comprehensive income in property revaluation reserve		**3,982**	–
Total comprehensive income for the period		**259,743**	244,050
Dividends declared on shares	12(a)	**(54,896)**	(54,896)
Balance at the end of the period		**7,946,070**	7,714,854

Condensed Consolidated Statement of Cash Flows

	Notes	For the six months ended 30 June 2019 (Unaudited) HK$'000	2018 (Unaudited) HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**309,022**	320,327
Adjustments for:			
Dividend income from listed investments	8	**(69)**	(73)
Dividend income from unlisted investments	8	**(35)**	(700)
Depreciation of property and equipment and land held under finance leases	9	**17,734**	15,281
Depreciation of right-of-use assets	9	**32,855**	–
Interest expenses on lease liabilities	7	**1,790**	–
Gain on termination of leases	8	**(916)**	–
Net losses on disposal of property and equipment	8	**54**	1
Increase/(decrease) in credit loss expenses for loans and advances and receivables		**5,183**	(4,552)
Increase/(decrease) in credit loss expenses for held-to-collect debt securities at amortised cost and bank placements		**101**	(229)
Increase in fair value of investment properties		**(35,250)**	(3,512)
Exchange differences		**(1,182)**	(16,833)
Profits tax paid		**(18,303)**	(32,151)
Operating profit before changes in operating assets and liabilities		**310,984**	277,559
Decrease in operating assets:			
Decrease in placements with banks and financial institutions		**295,333**	951,225
Decrease/(increase) in loans and advances and receivables		**702,769**	(337,529)
(Increase)/decrease in held-to-collect debt securities at amortised cost		**(431,680)**	1,102,471
(Increase)/decrease in other assets		**(33,215)**	72,709
(Increase)/decrease in derivative financial instruments		**(5,484)**	2,550
		527,723	1,791,426
Increase/(decrease) in operating liabilities:			
Increase/(decrease) in deposits and balances of banks and other financial institutions at amortised cost		**125,519**	(587,557)
Decrease in customer deposits at amortised cost		**(4,179)**	(728,488)
Decrease in certificates of deposit issued at amortised cost		**–**	(753,293)
(Decrease)/increase in derivative financial instruments		**(7,128)**	5,289
Increase/(decrease) in other liabilities		**59,416**	(27,762)
		173,628	(2,091,811)
Net cash inflow/(outflow) from operating activities		**1,012,335**	(22,826)

Condensed Consolidated Statement of Cash Flows

	Notes	For the six months ended 30 June 2019 (Unaudited) HK$'000	2018 (Unaudited) HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	20	**(30,944)**	(11,279)
Sales proceeds from disposal of property and equipment		**68**	3
Dividends received from listed investments		**69**	73
Dividends received from unlisted investments		**35**	700
Net cash outflow from investing activities		**(30,772)**	(10,503)
CASH FLOWS FROM FINANCING ACTIVITIES			
New unsecured bank loans		**101,414**	25,000
Repayment of unsecured bank loans		**–**	(68,829)
Repayment of lease liabilities		**(33,768)**	–
Dividends paid on shares		**(186,646)**	(175,667)
Net cash outflow from financing activities		**(119,000)**	(219,496)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**862,563**	(252,825)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**4,104,382**	4,549,399
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**4,966,945**	4,296,574
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand		**1,050,460**	1,087,329
Money at call and short notice with an original maturity within three months		**3,259,439**	2,405,668
Placements with banks and financial institutions with an original maturity within three months		**200,502**	429,362
Held-to-collect debt securities at amortised cost with an original maturity within three months		**456,544**	374,215
		4,966,945	4,296,574
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		**(251,162)**	(191,048)
Interest received		**978,486**	931,163

Notes to Interim Financial Statements

1. CORPORATE AND GROUP INFORMATION

The Company is incorporated in Bermuda. The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM 11, Bermuda.

The Company is a limited liability company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 626).

During the period, the principal activities of Public Financial Holdings Limited (the "Company") and its subsidiaries (the "Group") were the provision of banking, financial and related services, stockbroking, the letting of investment properties, the provision of financing to purchasers of taxis and public light buses, the trading of taxi cabs and taxi licences, and the leasing of taxis.

In the opinion of the Directors, the holding company and the ultimate holding company of the Company is Public Bank Berhad ("Public Bank"), which is incorporated in Malaysia.

Particulars of the Company's subsidiaries are as follows:

Name	Issued ordinary share capital HK$	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Public Bank (Hong Kong) Limited	2,854,045,000	100	–	Provision of banking, financial and related services
Public Bank (Nominees) Limited	100,000	–	100	Provision of nominee services
Public Credit Limited	5,000,000	–	100	In members' voluntary liquidation
Public Futures Limited	2	–	100	Dormant
Public Pacific Securities Limited	12,000,000	–	100	In members' voluntary liquidation
Public Financial Securities Limited	48,000,000	–	100	Securities brokerage
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
Winton (B.V.I.) Limited	61,773	100	–	Investment holding
Winton Financial Limited	4,000,010	–	100	Provisions of personal and property mortgage loans, and financing of licensed public vehicles such as taxis
Winton Motors, Limited	78,000	–	100	Trading of taxi cabs, taxi licences and leasing of taxis

Note:

Except for Winton (B.V.I.) Limited, which is incorporated in the British Virgin Islands, all subsidiaries are incorporated in Hong Kong. Except for Public Bank (Hong Kong) Limited, which operates in Hong Kong and Mainland China, all subsidiaries operate in Hong Kong.

Notes to Interim Financial Statements

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and in compliance with the Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They also contain certain disclosure information required under the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the "HKMA").

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 2018 Annual Report.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's 2018 Annual Report, except for the changes in accounting policies as set out in note 5 below.

3. BASIS OF CONSOLIDATION

The interim condensed consolidated financial statements include the interim financial statements of the Company and its subsidiaries for the period ended 30 June 2019.

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

The subsidiaries consolidated for accounting purpose are Public Bank (Hong Kong) Limited ("Public Bank (Hong Kong)"), Public Finance Limited ("Public Finance"), Winton (B.V.I.) Limited and their subsidiaries.

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 referred to the Banking (Disclosure) Rules.

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

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

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

A portion of retained profits, based on a percentage of gross loans and advances, is set aside as a non-distributable regulatory reserve as part of Common Equity Tier 1 ("CET1") capital and is included in the capital base pursuant to the HKMA capital requirements.

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

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 2019. The Group has adopted the following new and revised standards for the first time for the interim financial statements:

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

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

Notes to Interim Financial Statements

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16

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

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

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

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

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

	1 January 2019 HK$'000
Deferred tax assets	
Closing balance under HKAS 17 at 31 December 2018	41,338
– Deferred tax effect under HKFRS 16	**1,301**
Opening balance under HKFRS 16 at 1 January 2019	**42,639**
Right-of-use assets	
Closing balance under HKAS 17 at 31 December 2018	–
– Recognition of right-of-use assets under HKFRS 16	**132,745**
Opening balance under HKFRS 16 at 1 January 2019	**132,745**
Lease liabilities	
Closing balance under HKAS 17 at 31 December 2018	–
– Recognition of lease liabilities under HKFRS 16	**140,633**
Opening balance under HKFRS 16 at 1 January 2019	**140,633**
Retained profits	
Closing balance under HKAS 17 at 31 December 2018	3,219,068
– Recognition of right-of-use assets under HKFRS 16	**132,745**
– Recognition of lease liabilities under HKFRS 16	**(140,633)**
– Deferred tax effect under HKFRS 16	**1,301**
Opening balance under HKFRS 16 at 1 January 2019	**3,212,481**

Notes to Interim Financial Statements

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

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

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

Nature of the effect of adoption of HKFRS 16

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

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

Leases previously classified as finance leases

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

Leases previously classified as operating leases

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

The Group also applied the available practical expedients wherein it:

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

Notes to Interim Financial Statements

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

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

Leases previously classified as operating leases (Continued)

Based on the foregoing, as at 1 January 2019:

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

- Additional lease liabilities of HK$140,633,000 were recognised.

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

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

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

	HK$'000
Operating lease commitments as at 31 December 2018	113,913
Weighted average incremental borrowing rate as at 1 January 2019	**2.73%**
Discounted operating lease commitments as at 1 January 2019	**102,647**
Add:	
Estimated dismantling cost	**4,544**
Payments in optional extension periods not recognised as at 31 December 2018	**33,442**
Lease liabilities as at 1 January 2019	**140,633**

Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of HKFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date which the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Notes to Interim Financial Statements

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

Summary of new accounting policies (Continued)

Lease liabilities

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification (i.e. a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset).

Short-term leases and leases of low-value assets

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

Significant judgement in determining the lease term of contracts with renewal options

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

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

Notes to Interim Financial Statements

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

Amounts recognised in the statement of financial position and profit or loss

Set out below are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets	Lease liabilities
	Buildings HK$'000	HK$'000
As at 1 January 2019	**132,745**	**140,633**
Additions	**21,818**	**21,818**
Write-off	**(4,735)**	**(5,651)**
Depreciation expense	**(32,855)**	**–**
Interest expense	**–**	**1,790**
Payments	**–**	**(33,768)**
As at 30 June 2019	**116,973**	**124,822**

The Group recognised rent expenses from short-term leases of HK$24,000 and leases of low-value assets of HK$1,156,000 for the six months ended 30 June 2019.

HK(IFRIC)-Int 23

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

Issued but not yet effective HKFRSs

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

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

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

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

Notes to Interim Financial Statements

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

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

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

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

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

6. 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;

Notes to Interim Financial Statements

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

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

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

The following table discloses the revenue and profit information for operating segments for the six months ended 30 June 2019 and 30 June 2018.

	Retail and commercial banking businesses For the six months ended 30 June		Wealth management services, stockbroking and securities management For the six months ended 30 June		Other businesses For the six months ended 30 June		Total For the six months ended 30 June	
	2019 (Unaudited) HK$'000	2018 (Unaudited) HK$'000	**2019 (Unaudited) HK$'000**	2018 (Unaudited) HK$'000	**2019 (Unaudited) HK$'000**	2018 (Unaudited) HK$'000	**2019 (Unaudited) HK$'000**	2018 (Unaudited) HK$'000
Segment revenue								
External:								
Net interest income/(expense)	**689,856**	715,240	**(407)**	(45)	**-**	–	**689,449**	715,195
Other operating income:								
Net fees and commission income	**72,945**	76,279	**27,002**	25,716	**151**	194	**100,098**	102,189
Others	**12,895**	6,228	**(1)**	(1)	**7,429**	9,206	**20,323**	15,433
Operating income	**775,696**	797,747	**26,594**	25,670	**7,580**	9,400	**809,870**	832,817
Operating profit after credit loss expenses before tax	**268,036**	300,115	**13,895**	13,192	**27,091**	7,020	**309,022**	320,327
Tax							**(52,052)**	(59,446)
Profit for the period							**256,970**	260,881
Other segment information								
Depreciation of property and equipment and land held under finance leases	**(17,734)**	(15,281)	**-**	–	**-**	–	**(17,734)**	(15,281)
Changes in fair value of investment properties	**-**	–	**-**	–	**35,250**	3,512	**35,250**	3,512
Credit loss expenses	**(96,809)**	(78,670)	**-**	–	**-**	–	**(96,809)**	(78,670)
Net losses on disposal of property and equipment	**(54)**	(1)	**-**	–	**-**	–	**(54)**	(1)

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 2019 and 31 December 2018.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000	**30 June 2019 (Unaudited) HK$'000**	31 December 2018 (Audited) HK$'000	**30 June 2019 (Unaudited) HK$'000**	31 December 2018 (Audited) HK$'000	**30 June 2019 (Unaudited) HK$'000**	31 December 2018 (Audited) HK$'000
Segment assets other than intangible assets and goodwill	**42,713,950**	42,277,363	**320,567**	309,555	**397,541**	346,291	**43,432,058**	42,933,209
Intangible assets	**-**	–	**718**	718	**-**	–	**718**	718
Goodwill	**2,774,403**	2,774,403	**-**	–	**-**	–	**2,774,403**	2,774,403
Segment assets	**45,488,353**	45,051,766	**321,285**	310,273	**397,541**	346,291	**46,207,179**	45,708,330
Unallocated assets:								
Deferred tax assets and tax recoverable							**43,955**	42,560
Total assets							**46,251,134**	45,750,890
Segment liabilities	**38,066,126**	37,667,853	**91,062**	89,378	**7,462**	7,555	**38,164,650**	37,764,786
Unallocated liabilities:								
Deferred tax liabilities and tax payable							**85,518**	51,648
Dividends payable							**54,896**	186,646
Total liabilities							**38,305,064**	38,003,080
Other segment information								
Additions to non-current assets – capital expenditure	**30,944**	81,876	**-**	–	**-**	–	**30,944**	81,876

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 2019 and 30 June 2018.

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Segment revenue from external customers:		
Hong Kong	**743,087**	765,782
Mainland China	**66,783**	67,035
	809,870	832,817

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

The following table discloses the non-current asset information for geographical segments as at 30 June 2019 and 31 December 2018.

	30 June	31 December
	2019	2018
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Non-current assets:		
Hong Kong	**4,084,739**	3,925,618
Mainland China	**26,553**	16,381
	4,111,292	3,941,999

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

Operating income or revenue from major customers

Operating income or revenue from transactions with each external customer amounts to less than 10% (2018: 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	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**854,291**	810,349
Short term placements and placements with banks	**60,758**	64,499
Held-to-collect debt securities at amortised cost	**70,369**	41,294
	985,418	916,142
Interest expense on:		
Deposits from banks and financial institutions	**7,830**	4,264
Deposits from customers	**263,403**	175,950
Bank loans	**22,946**	20,733
Lease liabilities	**1,790**	–
	295,969	200,947

Interest income and interest expense for the six months ended 30 June 2019, 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$985,418,000 and HK$295,969,000 (2018: HK$916,142,000 and HK$200,947,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2019 amounted to HK$5,675,000 (2018: HK$6,082,000).

Notes to Interim Financial Statements

8. OTHER OPERATING INCOME

	For the six months ended 30 June 2019 (Unaudited) HK$'000	2018 (Unaudited) HK$'000
Fees and commission income:		
Retail and commercial banking and other businesses	**74,099**	77,143
Wealth management services, stockbroking and securities management	**27,002**	25,716
	101,101	102,859
Less: Fees and commission expenses	**(1,003)**	(670)
Net fees and commission income	**100,098**	102,189
Gross rental income	**7,419**	8,947
Less: Direct operating expenses	**(37)**	(38)
Net rental income	**7,382**	8,909
Gains less losses arising from dealing in foreign currencies	**2,988**	10,056
Net gains/(losses) on derivative financial instruments	**7,877**	(5,218)
	10,865	4,838
Net losses on disposal of property and equipment	**(54)**	(1)
Gain on termination of leases	**916**	–
Dividend income from listed investments	**69**	73
Dividend income from unlisted investments	**35**	700
Others	**1,110**	914
	120,421	117,622

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

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 2019 and 30 June 2018.

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

Notes to Interim Financial Statements

9. OPERATING EXPENSES

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Staff costs:		
Salaries and other staff costs	**266,100**	266,706
Pension contributions	**12,354**	12,409
Less: Forfeited contributions	**(82)**	(8)
Net contribution to retirement benefit schemes	**12,272**	12,401
	278,372	279,107
Other operating expenses:		
Operating lease rentals on leasehold buildings	**–**	33,723
Depreciation of right-of-use assets	**32,855**	–
Depreciation of property and equipment and land held under finance leases	**17,734**	15,281
Administrative and general expenses	**42,238**	38,951
Others	**68,090**	70,270
Operating expenses before changes in fair value of investment properties	**439,289**	437,332

As at 30 June 2019 and 30 June 2018, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The credits for the periods ended 30 June 2019 and 30 June 2018 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 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	**134**	**5,370**	**91,089**	**96,593**
– trade bills, accrued interest and other receivables	**98**	**4**	**21**	**123**
– 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)**
– financial guarantees and letters of credit	**–**	**–**	**–**	**–**
	325	**5,374**	**91,110**	**96,809**

	For the six months ended 30 June 2018 (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	(1,305)	341	80,076	79,112
– trade bills, accrued interest and other receivables	57	(5)	(243)	(191)
– cash and short term placements	(118)	–	–	(118)
– placements with banks and financial institutions	(15)	–	–	(15)
– held-to-collect debt securities at amortised cost	(96)	–	–	(96)
– loan commitments	(21)	–	–	(21)
– financial guarantees and letters of credit	(1)	–	–	(1)
	(1,499)	336	79,833	78,670

Notes to Interim Financial Statements

11. TAX

	For the six months ended 30 June 2019 (Unaudited) HK$'000	2018 (Unaudited) HK$'000
Current tax charge:		
Hong Kong	**40,421**	46,745
Overseas	**12,770**	11,669
Deferred tax (credit)/charge, net	**(1,139)**	1,032
	52,052	59,446

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the 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 Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. statutory tax rates) to the effective tax rates, are as follows:

	For the six months ended 30 June 2019 (Unaudited)					
	Hong Kong HK$'000	**%**	**Mainland China HK$'000**	**%**	**Total HK$'000**	**%**
Profit before tax	**259,029**		**49,993**		**309,022**	
Tax at the applicable tax rate	**42,740**	**16.5**	**12,498**	**25.0**	**55,238**	**17.8**
Estimated tax losses from previous periods utilised	**–**	**–**	**–**	**–**	**–**	**–**
Estimated tax effect of net (income)/expenses that are not (taxable)/ deductible	**(3,238)**	**(1.2)**	**52**	**0.1**	**(3,186)**	**(1.0)**
Tax charge at the Group's effective rate	**39,502**	**15.3**	**12,550**	**25.1**	**52,052**	**16.8**

Notes to Interim Financial Statements

11. TAX (Continued)

	For the six months ended 30 June 2018 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	269,168		51,159		320,327	
Tax at the applicable tax rate	44,413	16.5	12,790	25.0	57,203	17.9
Estimated tax losses from previous periods utilised	(5)	–	–	–	(5)	–
Estimated tax effect of net expenses that are not deductible	2,241	0.8	7	–	2,248	0.7
Tax charge at the Group's effective rate	46,649	17.3	12,797	25.0	59,446	18.6

12. DIVIDENDS

(a) Dividends declared during the interim period

	For the six months ended 30 June			
	2019 (Unaudited) HK$ per ordinary share	2018 (Unaudited) HK$ per ordinary share	**2019 (Unaudited) HK$'000**	2018 (Unaudited) HK$'000
Interim dividend	**0.05**	0.05	**54,896**	54,896

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

	For the six months ended 30 June			
	2019 (Unaudited) HK$ per ordinary share	2018 (Unaudited) HK$ per ordinary share	**2019 (Unaudited) HK$'000**	2018 (Unaudited) HK$'000
Second interim dividend in respect of the previous period	**0.17**	0.16	**186,646**	175,667

13. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period of HK$256,970,000 (2018: HK$260,881,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2018: 1,097,917,618) during the period.

(b) Diluted earnings per share

The Group had no potentially dilutive ordinary shares in issue during the periods ended 30 June 2019 and 30 June 2018.

Notes to Interim Financial Statements

14. CASH AND SHORT TERM PLACEMENTS

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Cash on hand	**158,317**	166,661
Placements with banks and financial institutions	**892,143**	943,455
Money at call and short notice	**3,392,720**	2,844,036
Gross cash and short term placements	**4,443,180**	3,954,152
Less: Impairment allowances collectively assessed		
As at 1 January 2019 and 1 January 2018	**(379)**	(470)
Credit loss expenses (charged)/released to the consolidated income statement during the period/year	**(50)**	91
	(429)	(379)
Cash and short term placements	**4,442,751**	3,953,773

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

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

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Gross placements with banks and financial institutions	**1,610,368**	1,556,498
Less: Impairment allowances collectively assessed		
As at 1 January 2019 and 1 January 2018	**(156)**	(151)
Credit loss expenses charged to the consolidated income statement during the period/year	**(5)**	(5)
	(161)	(156)
Placements with banks and financial institutions	**1,610,207**	1,556,342

Over 90% (31 December 2018: 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

16. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Loans and advances to customers	**29,226,770**	29,945,241
Trade bills	**40,906**	29,724
Loans and advances, and trade bills	**29,267,676**	29,974,965
Accrued interest	**84,267**	78,371
	29,351,943	30,053,336
Other receivables	**17,443**	18,819
Gross loans and advances and receivables	**29,369,386**	30,072,155
Less: Impairment allowances*		
– specifically assessed	**(55,691)**	(56,106)
– collectively assessed	**(144,068)**	(138,470)
	(199,759)	(194,576)
Loans and advances and receivables	**29,169,627**	29,877,579

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

* *The balances also include the impairment allowances of HK$94,000 and HK$102,000 on off-balance sheet credit exposures as at 30 June 2019 and 31 December 2018 respectively.*

Loans and advances and receivables are summarised as follows:

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Neither past due nor impaired loans and advances and receivables	**28,509,410**	29,424,485
Past due but not impaired loans and advances and receivables	**669,974**	449,145
Credit impaired loans and advances	**186,531**	195,687
Credit impaired receivables	**3,471**	2,838
Gross loans and advances and receivables	**29,369,386**	30,072,155

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

Notes to Interim Financial Statements

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2019 (Unaudited) Gross amount HK$'000	**30 June 2019 (Unaudited) Percentage of total loans and advances %**	31 December 2018 (Audited) Gross amount HK$'000	31 December 2018 (Audited) Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	**45,780**	**0.16**	93,214	0.31
One year or less but over six months	**51,135**	**0.17**	12,453	0.04
Over one year	**1,559**	**0.01**	4,424	0.02
Loans and advances overdue for more than three months	**98,474**	**0.34**	110,091	0.37
Rescheduled loans and advances overdue for three months or less	**72,232**	**0.25**	67,162	0.22
Impaired loans and advances overdue for three months or less	**15,825**	**0.05**	18,434	0.06
Total overdue and impaired loans and advances	**186,531**	**0.64**	195,687	0.65

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

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**58**	1,647
One year or less but over six months	**2,823**	472
Over one year	**163**	288
Trade bills, accrued interest and other receivables overdue for more than three months	**3,044**	2,407
Impaired trade bills, accrued interest and other receivables overdue for three months or less	**427**	431
Total overdue and impaired trade bills, accrued interest and other receivables	**3,471**	2,838

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

Notes to Interim Financial Statements

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2019 (Unaudited)			31 December 2018 (Audited)		
	Hong Kong HK$'000	**Mainland China HK$'000**	**Total HK$'000**	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	**71,127**	**30,391**	**101,518**	83,834	28,664	112,498
Impairment allowances specifically assessed	**38,210**	**3**	**38,213**	40,108	3	40,111
Current market value and fair value of collateral			**82,130**			118,970
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**153,759**	**36,243**	**190,002**	161,622	36,903	198,525
Impairment allowances specifically assessed	**55,687**	**4**	**55,691**	56,102	4	56,106
Current market value and fair value of collateral			**134,513**			157,257

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

16. 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 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**82,130**	118,970
Covered portion of overdue loans and advances	**50,255**	58,172
Uncovered portion of overdue loans and advances	**48,219**	51,919

The assets taken as collateral should satisfy the following criteria:

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

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

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

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

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

– Central governments with a grading of Aa3 or above

– Unrated public sector enterprises

– Banks with a grading of Baa2 or above

– Unrated corporations

– Individual shareholders and directors of corporate customers

(d) Repossessed assets

As at 30 June 2019, the total value of repossessed assets of the Group amounted to HK$14,150,000 (31 December 2018: HK$33,160,000).

Notes to Interim Financial Statements

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2019 (Unaudited) Gross amount HK$'000	30 June 2019 (Unaudited) Percentage of total loans and advances %	31 December 2018 (Audited) Gross amount HK$'000	31 December 2018 (Audited) Percentage of total loans and advances %
Loans and advances overdue for three months or less	**666,549**	**2.28**	446,235	1.49
Trade bills, accrued interest and other receivables overdue for three months or less	**3,425**		2,910	

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

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

	30 June 2019 (Unaudited) Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Gross loans and advances and receivables as at 1 January 2019	29,701,281	172,349	198,525	30,072,155
New loans/financing originated	5,175,700	235	974	5,176,909
Loans/financing derecognised or repaid during the period (other than write-offs)	(5,679,987)	(21,983)	(27,062)	(5,729,032)
Transfer to 12-month expected credit loss (Stage 1)	76,071	(37,361)	(38,710)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(137,823)	142,904	(5,081)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(157,954)	(54,048)	212,002	–
Total transfer between stages	(219,706)	51,495	168,211	–
Write-offs	–	–	(150,646)	(150,646)
As at 30 June 2019	28,977,288	202,096	190,002	29,369,386
Arising from:				
Loans and advances	28,839,447	200,792	186,531	29,226,770
Trade bills, accrued interest and other receivables	137,841	1,304	3,471	142,616
	28,977,288	202,096	190,002	29,369,386

The amount outstanding on financial assets that were written off during the period and are still subject to enforcement action amounted to HK$121,663,000.

Notes to Interim Financial Statements

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

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

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

Notes to Interim Financial Statements

16. 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 2019 (Unaudited)			
	Stage 1 HK$'000	**Stage 2 HK$'000**	**Stage 3 HK$'000**	**Total HK$'000**
Internal rating grades:				
Performing				
Pass	**28,784,061**	**–**	**–**	**28,784,061**
Special Mention	**193,227**	**202,096**	**–**	**395,323**
Non-performing				
Substandard	**–**	**–**	**123,666**	**123,666**
Doubtful	**–**	**–**	**62,757**	**62,757**
Loss	**–**	**–**	**3,579**	**3,579**
Total	**28,977,288**	**202,096**	**190,002**	**29,369,386**

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

Notes to Interim Financial Statements

16. 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 2019 (Unaudited)			
	Stage 1 HK$'000	**Stage 2 HK$'000**	**Stage 3 HK$'000**	**Total HK$'000**
As at 1 January 2019	**108,901**	**29,569**	**56,106**	**194,576**
New loans/financing originated	**54,499**	**5**	**14**	**54,518**
Loans/financing derecognised or repaid during the period (other than write-offs)	**(50,313)**	**(4,022)**	**(62,790)**	**(117,125)**
Transfer to 12-month expected credit loss (Stage 1)	**5,363**	**(743)**	**(4,620)**	**–**
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	**(2,326)**	**2,524**	**(198)**	**–**
Transfer to lifetime expected credit loss credit impaired (Stage 3)	**(4,249)**	**(23,572)**	**27,821**	**–**
Total transfer between stages	**(1,212)**	**(21,791)**	**23,003**	**–**
Impact on period end expected credit loss of exposures transferred between stages during the period	**(2,446)**	**31,182**	**113,362**	**142,098**
Movements due to changes in credit risk	**(304)**	**–**	**17,521**	**17,217**
Recoveries	**–**	**–**	**59,121**	**59,121**
Write-offs	**–**	**–**	**(150,646)**	**(150,646)**
Exchange differences	**–**	**–**	**–**	**–**
As at 30 June 2019	**109,125**	**34,943**	**55,691**	**199,759**
Arising from:				
Loans and advances	**107,224**	**34,936**	**55,605**	**197,765**
Trade bills, accrued interest and other receivables	**1,807**	**7**	**86**	**1,900**
Loan commitments	**91**	**–**	**–**	**91**
Financial guarantees and letters of credit	**3**	**–**	**–**	**3**
	109,125	**34,943**	**55,691**	**199,759**

Notes to Interim Financial Statements

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

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

16. 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 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	Minimum lease payments		Present value of minimum lease payments	
	HK$'000	HK$'000	HK$'000	HK$'000
Amounts receivable under finance leases:				
Within one year	**416,041**	405,397	**294,414**	284,240
In the second to fifth years, inclusive	**1,228,392**	1,213,656	**861,196**	839,341
Over five years	**4,152,078**	4,296,324	**3,420,842**	3,525,992
	5,796,511	5,915,377	**4,576,452**	4,649,573
Less: Unearned finance income	**(1,220,059)**	(1,265,804)		
Present value of minimum lease payments receivables	**4,576,452**	4,649,573		

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

17. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Below is an analysis of the Group's equity investments other than those measured at FVPL:

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'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

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

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Certificates of deposit held	**2,622,037**	2,269,082
Treasury bills and government bonds (including Exchange Fund Bills)	**2,626,323**	2,307,321
Other debt securities	**1,411,224**	1,627,169
Gross held-to-collect debt securities at amortised cost	**6,659,584**	6,203,572
Less: Impairment allowances collectively assessed		
As at 1 January 2019 and 1 January 2018	**(623)**	(570)
Credit loss expenses charged to the consolidated income statement during the period/year	**(46)**	(53)
	(669)	(623)
	6,658,915	6,202,949
Listed or unlisted:		
– Listed in Hong Kong	**1,449,984**	1,785,576
– Listed outside Hong Kong	**183,303**	189,670
– Unlisted	**5,026,297**	4,228,326
	6,659,584	6,203,572
Analysed by type of issuers:		
– Central governments	**2,626,323**	2,307,321
– Public sector entities	**199,947**	299,914
– Banks and other financial institutions	**3,833,314**	3,596,337
	6,659,584	6,203,572

Notes to Interim Financial Statements

18. HELD-TO-COLLECT DEBT SECURITIES AT AMORTISED COST (Continued)

There were no impairment allowances specifically assessed made against held-to-collect debt securities at amortised cost as at 30 June 2019 and 31 December 2018.

There were neither impaired nor overdue held-to-collect debt securities at amortised cost as at 30 June 2019 and 31 December 2018.

All exposures attributed to the held-to-collect debt securities at amortised cost were rated with a grading of A3 or above based on the credit rating of Moody's as at 30 June 2019 and 31 December 2018.

19. INVESTMENT PROPERTIES

	HK$'000
At valuation:	
As at 1 January 2018	328,739
Transfer to property and equipment	(2,230)
Transfer to land held under finance leases	(50,520)
Addition	47,100
Transfer from property and equipment	54
Transfer from land held under finance leases	893
Changes in fair value recognised in the consolidated income statement	21,679
As at 31 December 2018 and 1 January 2019 (Audited)	**345,715**
Transfer from property and equipment	**515**
Transfer from land held under finance leases	**11,199**
Changes in fair value recognised in the consolidated statement of comprehensive income	**3,982**
Changes in fair value recognised in the consolidated income statement	**35,250**
As at 30 June 2019 (Unaudited)	**396,661**

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 2018: 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 2019, 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

19. 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 2019 (Unaudited)		31 December 2018 (Audited)	
	Range HK$	**Weighted average HK$**	Range HK$	Weighted average HK$
Price per square metre	**32,000 to 548,000**	**204,000**	31,000 to 527,000	197,000

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.

Notes to Interim Financial Statements

20. PROPERTY AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
As at 1 January 2018	80,385	269,736	2,098	352,219
Transfer to investment properties	(77)	–	–	(77)
Transfer from investment properties	2,230	–	–	2,230
Additions	–	34,451	325	34,776
Disposals/write-off	–	(6,029)	(139)	(6,168)
As at 31 December 2018 and 1 January 2019 (Audited)	**82,538**	**298,158**	**2,284**	**382,980**
Transfer to investment properties	**(638)**	**–**	**–**	**(638)**
Additions	**–**	**30,764**	**180**	**30,944**
Disposals/write-off	**–**	**(2,435)**	**(150)**	**(2,585)**
As at 30 June 2019 (Unaudited)	**81,900**	**326,487**	**2,314**	**410,701**
Accumulated depreciation:				
As at 1 January 2018	25,628	192,001	2,011	219,640
Provided during the year	1,698	22,677	52	24,427
Transfer to investment properties	(23)	–	–	(23)
Disposals/write-off	–	(6,015)	(139)	(6,154)
As at 31 December 2018 and 1 January 2019 (Audited)	**27,303**	**208,663**	**1,924**	**237,890**
Provided during the period	**855**	**12,883**	**50**	**13,788**
Transfer to investment properties	**(123)**	**–**	**–**	**(123)**
Disposals/write-off	**–**	**(2,313)**	**(150)**	**(2,463)**
As at 30 June 2019 (Unaudited)	**28,035**	**219,233**	**1,824**	**249,092**
Net carrying amount:				
As at 30 June 2019 (Unaudited)	**53,865**	**107,254**	**490**	**161,609**
As at 31 December 2018 (Audited)	55,235	89,495	360	145,090

There were no impairment allowances made against the above items of property and equipment as at 30 June 2019 and 31 December 2018. There were no movements in impairment allowances for the period ended 30 June 2019 and for the year ended 31 December 2018.

Notes to Interim Financial Statements

21. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
As at 1 January 2018	747,415
Transfer to investment properties	(1,282)
Transfer from investment properties	50,520
As at 31 December 2018 and 1 January 2019 (Audited)	**796,653**
Transfer to investment properties	**(12,262)**
As at 30 June 2019 (Unaudited)	**784,391**
Accumulated depreciation and impairment:	
As at 1 January 2018	113,047
Transfer to investment properties	(389)
Depreciation provided during the year	7,922
As at 31 December 2018 and 1 January 2019 (Audited)	**120,580**
Depreciation provided during the period	**3,946**
Transfer to investment properties	**(1,063)**
As at 30 June 2019 (Unaudited)	**123,463**
Net carrying amount:	
As at 30 June 2019 (Unaudited)	**660,928**
As at 31 December 2018 (Audited)	676,073

Land leases are stated at the recoverable amount 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.

22. INTANGIBLE ASSETS

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Cost:		
At the beginning and the end of the period/year	**1,085**	1,085
Accumulated impairment:		
At the beginning and the end of the period/year	**367**	367
Net carrying amount:		
At the beginning and the end of the period/year	**718**	718

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 2018: five units) of Stock Exchange Trading Right and one unit (31 December 2018: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

Notes to Interim Financial Statements

23. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Interest receivables from financial institutions	**46,786**	45,750
Other debtors, deposits and prepayments	**128,034**	99,609
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	**24,738**	20,984
	199,558	166,343

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

Other liabilities

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Creditors, accruals and other payables	**264,271**	254,345
Interest payable	**233,956**	189,149
Net amount of accounts payable to HKSCC	**17,052**	12,369
	515,279	455,863

24. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Demand deposits and current accounts	**4,717,618**	4,685,611
Savings deposits	**7,092,421**	6,803,555
Time, call and notice deposits	**23,470,104**	23,795,156
	35,280,143	35,284,322

Notes to Interim Financial Statements

25. UNSECURED BANK LOANS AT AMORTISED COST

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Unsecured bank loans	**1,546,028**	1,444,614
Repayable:		
On demand or within a period not exceeding one year	**455,000**	355,000
Within a period of more than two years but not exceeding five years	**1,091,028**	1,089,614
	1,546,028	1,444,614

The unsecured bank loans were denominated in Hong Kong dollars ("HKD"). Carrying amounts of the unsecured bank loans bore interest at floating interest rates and at prevailing market rates.

26. RESERVES

	Note	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Property revaluation reserve HK$'000	Regulatory reserve# HK$'000	Retained profits HK$'000	Translation reserve HK$'000	Total HK$'000
As at 1 January 2018		4,013,296	829	96,116	–	312,619	2,934,053	58,995	7,415,908
Profit for the year		–	–	–	–	–	510,478	–	510,478
Other comprehensive income		–	–	–	–	–	–	(46,826)	(46,826)
Transfer from regulatory reserve to retained profits		–	–	–	–	(16,079)	16,079	–	–
Dividends for 2018		–	–	–	–	–	(241,542)	–	(241,542)
As at 31 December 2018 (Reported)		4,013,296	829	96,116	–	296,540	3,219,068	12,169	7,638,018
Impact of adopting HKFRS 16	5	**-**	**-**	**-**	**-**	**-**	**(6,587)**	**-**	**(6,587)**
Restated opening balance under HKFRS 16 as at 1 January 2019		**4,013,296**	**829**	**96,116**	**-**	**296,540**	**3,212,481**	**12,169**	**7,631,431**
Profit for the period		**-**	**-**	**-**	**-**	**-**	**256,970**	**-**	**256,970**
Other comprehensive income		**-**	**-**	**-**	**3,982**	**-**	**-**	**(1,209)**	**2,773**
Transfer from regulatory reserve to retained profits		**-**	**-**	**-**	**-**	**(76,739)**	**76,739**	**-**	**-**
Dividends declared		**-**	**-**	**-**	**-**	**-**	**(54,896)**	**-**	**(54,896)**
As at 30 June 2019 (Unaudited)		**4,013,296**	**829**	**96,116**	**3,982**	**219,801**	**3,491,294**	**10,960**	**7,836,278**

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.

27. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties in note 19 under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

As at 30 June 2019 and 31 December 2018, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Within one year	**10,075**	8,151
In the second to fifth years, inclusive	**6,809**	4,510
	16,884	12,661

(b) As lessee

The Group has entered into future lease arrangements with landlords, and the terms of the leases range from 1 to 6 years.

As at 30 June 2019, the Group had total future lease payments for leases committed but not yet commenced falling due as follows:

	30 June 2019 (Unaudited) HK$'000
Within one year	**4,927**
In the second to fifth years, inclusive	**13,858**
Over five years	**1,784**
	20,569

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

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

Notes to Interim Financial Statements

28. 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 reporting period:

	30 June 2019 (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	**25,570**	**25,570**	**21,084**	**–**	**–**
Transaction-related contingencies	**7,046**	**3,523**	**775**	**–**	**–**
Trade-related contingencies	**20,136**	**4,027**	**3,885**	**–**	**–**
Forward forward deposits placed	**126,910**	**126,910**	**25,382**	**–**	**–**
Forward asset purchases	**–**	**–**	**–**	**–**	**–**
	179,662	**160,030**	**51,126**	**–**	**–**
Derivatives held for trading:					
Foreign exchange rate contracts	**775,347**	**15,784**	**3,157**	**8,025**	**147**
Other commitments with an original maturity of:					
Not more than one year	**–**	**–**	**–**	**–**	**–**
More than one year	**–**	**–**	**–**	**–**	**–**
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	**2,939,468**	**–**	**–**	**–**	**–**
	3,894,477	**175,814**	**54,283**	**8,025**	**147**

	30 June 2019 (Unaudited) Contractual amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	**25,804**

Notes to Interim Financial Statements

28. OFF-BALANCE SHEET EXPOSURE (Continued)

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

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

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

The corresponding ECLs for the outstanding off-balance sheet exposures are included in the analysis of changes in ECL allowances in note 16(f) to the interim financial statements.

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

Notes to Interim Financial Statements

28. OFF-BALANCE SHEET EXPOSURE (Continued)

(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 the 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.

29. RELATED PARTY TRANSACTIONS

During the period, the Group had the following major transactions with related parties which were carried out on essentially the same terms and/or at prevailing market rates with other customers or suppliers:

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Related party transactions included in the consolidated income statement:		
Interest paid and payable to the ultimate holding company and fellow subsidiaries	**5,748**	3,890
Deposit interest and commitment fees paid to the ultimate holding company and fellow subsidiaries	**2,040**	1,268
Key management personnel compensation:		
– short term employee benefits	**4,753**	4,524
– post-employment benefits	**304**	228
Interest paid to key management personnel	**12**	9
Commission fee income from key management personnel	**4**	4

Notes to Interim Financial Statements

29. RELATED PARTY TRANSACTIONS (Continued)

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Related party transactions included in the consolidated statement of financial position:		
Cash and short term funds with the ultimate holding company	**278**	2,210
Deposits from the ultimate holding company and fellow subsidiaries	**19,922**	17,685
Bank loans from the ultimate holding company and a fellow subsidiary	**455,000**	355,000
Interest payable to the ultimate holding company and a fellow subsidiary	**156**	83
Loans to key management personnel	**129**	209
Deposits from key management personnel	**2,290**	1,812
Interest payable to key management personnel	**5**	3

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Liquid or/and very short-term and variable rate financial instruments

Liquid or/and very short-term and variable rate financial instruments include loans and advances and receivables, 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 have 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.

Notes to Interim Financial Statements

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

	30 June 2019 (Unaudited)			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets:				
Derivative financial instruments	**–**	**8,025**	**–**	**8,025**
Equity investments at fair value through other comprehensive income	**–**	**–**	**6,804**	**6,804**
	–	**8,025**	**6,804**	**14,829**
Financial liabilities:				
Derivative financial instruments	**–**	**147**	**–**	**147**

	31 December 2018 (Audited)			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets:				
Derivative financial instruments	–	2,541	–	2,541
Equity investments at fair value through other comprehensive income	–	–	6,804	6,804
	–	2,541	6,804	9,345
Financial liabilities:				
Derivative financial instruments	–	7,275	–	7,275

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 2019 and 31 December 2018, 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 Level 3 financial instruments is insignificant to the Group.

For the period ended 30 June 2019 and the year ended 31 December 2018, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the period ended 30 June 2019 and the year ended 31 December 2018, there were no issues and settlements related to the Level 3 financial instruments.

Notes to Interim Financial Statements

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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 2019 and the year ended 31 December 2018.

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.

31. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below shows 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 2019 (unaudited)							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Gross cash and short term placements	1,050,460	3,392,720	–	–	–	–	–	4,443,180
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	761,572	848,796	–	–	–	1,610,368
Gross loans and advances and receivables	1,423,785	2,563,841	942,951	3,100,597	6,885,737	14,262,473	190,002	29,369,386
Equity investments at fair value through other comprehensive income	–	–	–	–	–	–	6,804	6,804
Gross held-to-collect debt securities at amortised cost	–	891,364	951,610	3,193,867	1,622,743	–	–	6,659,584
Other assets	262	104,097	20,456	48,814	8,325	–	17,604	199,558
Gross foreign exchange contracts	76,617	697,271	780	–	–	–	–	774,668
Total financial assets	2,551,124	7,649,293	2,677,369	7,192,074	8,516,805	14,262,473	214,410	43,063,548
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	58,661	469,570	60,000	110,000	–	–	–	698,231
Customer deposits at amortised cost	11,844,597	7,551,001	10,431,689	5,447,597	5,259	–	–	35,280,143
Unsecured bank loans at amortised cost	–	455,000	–	–	1,091,028	–	–	1,546,028
Lease liabilities	–	5,122	10,329	42,214	66,218	939	–	124,822
Other liabilities	6,547	160,671	86,744	98,199	99	–	163,019	515,279
Gross foreign exchange contracts	76,571	689,438	781	–	–	–	–	766,790
Total financial liabilities	11,986,376	9,330,802	10,589,543	5,698,010	1,162,604	939	163,019	38,931,293
Net liquidity gap	(9,435,252)	(1,681,509)	(7,912,174)	1,494,064	7,354,201	14,261,534	51,391	4,132,255

Notes to Interim Financial Statements

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

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

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise customer deposits, bank loans, and deposits and balances of banks and other financial institutions. 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 investments at FVOCI financial assets, 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 risk, mainly interest rate risk, market risk, credit risk, liquidity risk and operational risk. The respective Boards of Directors (the "Boards") of Public Bank (Hong Kong) 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 Public Bank (Hong Kong) 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 Public Bank (Hong Kong) 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 and endorsed by the respective Boards of Public Bank (Hong Kong) 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 Public Bank (Hong Kong) and Public Finance also perform regular audits to ensure compliance with the policies and procedures.

Interest rate risk management

Interest rate risk is the risk that the Group's position may be adversely affected by a change of market interest rates. The Group's interest rate risk arises primarily from the timing difference in the maturity and the repricing of the Group's interest-bearing assets, liabilities and off-balance sheet commitments. The primary objective of interest rate risk management is to limit the potential adverse effects of interest rate movements in net interest income by closely monitoring the net repricing gap of the Group's assets and liabilities. Interest rate risk is daily managed by the Group's Treasury Department. Risk Management Departments of Public Bank (Hong Kong) and Public Finance measure interest rate risk exposures in the banking book on a monthly basis and the results are monitored by the respective ALCOs against limits approved by the respective Boards.

The relevant interest rate risk arises from repricing risk and basis risk.

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 dealing, 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 Public Bank (Hong Kong).

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(a) Currency risk (Continued)

The Group's assets and liabilities are mainly denominated in HKD, United States dollars ("USD"), Renminbi ("RMB"), Australian dollars ("AUD") and New Zealand dollars ("NZD"). 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 2019, 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 2018: HK$11 million) mainly as a result of foreign exchange impact arising from net structural position of RMB denominated operating capital.

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

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

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

Compliance Departments of Public Bank (Hong Kong) 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

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management (Continued)

Credit Committees of Public Bank (Hong Kong) 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 Public Bank (Hong Kong) 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 Public Bank (Hong Kong) 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 Public Bank (Hong Kong) 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 16 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 Group has established a liquidity risk management framework which incorporates liquidity risk tolerance, management oversight on liquidity risk, liquidity risk and funding strategy, risk related metrics and tools for liquidity risk management, internal liquidity risk pricing, and the manner of reporting significant matters. The major objectives of liquidity risk management framework are to (i) specify the roles and responsibilities of relevant parties on liquidity risk management, (ii) identify, measure and control liquidity risk exposures with proper implementation of funding strategies, (iii) effectively report significant risk related matters for management oversight, and (iv) manage the liquidity profile within risk tolerance. The liquidity risk management framework is cascaded to all business lines to ensure a consistent liquidity risk strategy, policies and practices across the Group. Liquidity risk related policies are reviewed by senior management and dedicated committees, and significant changes in such policies are approved by the Boards of Public Bank (Hong Kong) and Public Finance or committees delegated by the respective Boards.

ALCOs of Public Bank (Hong Kong) 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 Public Bank (Hong Kong) 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.

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Risk Management Departments of Public Bank (Hong Kong) 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 Public Bank (Hong Kong) 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 Public Bank (Hong Kong) or Public Finance will be presented by the respective ALCOs to their RMCs and the Boards.

The liquidity risk related metrics of Public Bank (Hong Kong) 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 scenarios 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.

The funding strategies of the Group are to (i) diversify funding sources for mitigating liquidity risk exposures; (ii) minimise disruptions due to operational issues such as transfer of liquidity across group entities; (iii) ensure contingency funding is available to the Group; and (iv) maintain sufficient liquidity cushion to meet critical liquidity needs such as loan commitments and deposit withdrawals in stressed situations. The Group establishes concentration limits of funding sources taking into account the respective risk profiles of Public Bank (Hong Kong) and Public Finance. For instance, intra-group funding and funding from the largest funding provider are restricted to 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 the early stage and obtaining of emergency funding in a bank-run scenario at the later stage. Designated roles and responsibilities of Crisis Management Team, departments and business units and their emergency contact information are documented clearly in the contingency funding plan as part of business continuity planning, and contingency funding measures are in place to set priorities of funding arrangements with counterparties, to set procedures for intraday liquidity risk management and intra-group funding support, to manage media relationship and to communicate with internal and external parties during a liquidity crisis. The stress-testing results are updated and reported to senior management regularly and the results such as 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$1.5 billion to address critical and emergent liquidity needs on an 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.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Apart from cash-flow projections under the normal scenario to manage liquidity under different time horizons, different stress scenarios such as the 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 the institution-specific stress scenario, loan repayments from some customers are assumed to be delayed. The projected cash inflow would be affected by the 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 the 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 Public Bank (Hong Kong) and Public Finance) and Public Bank (Hong Kong) 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	
	2019 (Unaudited)	2018 (Unaudited)
Liquidity Maintenance Ratio		
– Public Bank (Hong Kong) Group	**49.1%**	44.0%
– Public Bank (Hong Kong)	**48.1%**	43.0%
– Public Finance	**65.7%**	59.3%
Core Funding Ratio		
– Public Bank (Hong Kong) Group	**132.3%**	N/A
– Public Bank (Hong Kong)	**129.6%**	N/A

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. Public Bank (Hong Kong) 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 Public Bank (Hong Kong) 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 Public Bank (Hong Kong) 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 is 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 2019, its liquidity ratios in RMB and foreign currencies of Mainland China Office were more than 100%.

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Operational risk management

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

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

Capital management

Capital of the Group for regulatory and risk management purposes includes share capital, share premium, 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 ratio against trigger limits and for risk exposures and ensuring compliance with relevant statutory limits, taking into account business growth, dividend payouts and other relevant factors.

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

Capital adequacy ratios

The consolidated capital adequacy ratios of the Group are computed in accordance with the provisions of the Banking (Amendment) Ordinance 2012 relating to Basel III capital standards and the amended Capital Rules. The 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 Public Bank (Hong Kong) and Public Finance, respectively.

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Public Bank (Hong Kong):		
Consolidated CET1 Capital Ratio	**18.7%**	18.0%
Consolidated Tier 1 Capital Ratio	**18.7%**	18.0%
Consolidated Total Capital Ratio	**19.9%**	19.2%

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

Capital conservation buffer (CCB)

Public Bank (Hong Kong) Group is subject to the 2.5% CCB ratio which has been phased-in from 2016. The applicable CCB ratio effective from 1 January 2019 is 2.5%.

Countercyclical capital buffer (CCyB)

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

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Countercyclical capital buffer (CCyB) (Continued)

Public Bank (Hong Kong) Group has reserved a capital buffer for the implementation of the CCyB ratio, inclusive of the CCyB ratio of 2.5%, 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 2019 (Unaudited)				
1. Hong Kong	**2.500**	**18,346,665**		
2. Mainland China	**–**	**2,034,439**		
Total		**20,381,104**	**2.250**	**458,667**

Jurisdiction (J)	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK$'000	CCyB ratio %	CCyB amount HK$'000
As at 31 December 2018 (Audited)				
1. Hong Kong	1.875	18,720,870		
2. Mainland China	–	1,973,012		
Total		20,693,882	1.696	351,016

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 introducing 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 Instructions of the Quarterly Template on the Leverage Ratio.

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Public Bank (Hong Kong):		
Consolidated Tier 1 Capital	**5,248,640**	5,077,274
Consolidated Exposure Measure for Leverage Ratio	**42,778,545**	42,119,234
Consolidated Leverage Ratio	**12.3%**	12.1%

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

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 consolidated capital adequacy ratio of the Group is computed on a consolidated basis including the Company, Public Bank (Hong Kong) and Public Finance. The subsidiaries not included in the computation of the consolidated capital adequacy ratio of the Group are Public Bank (Nominees) Limited, Public Credit Limited (in members' voluntary liquidation), Public Futures Limited, Public Pacific Securities Limited (in members' voluntary liquidation), Public Financial Securities Limited, Public Financial Limited, Public Securities Limited, Public Securities (Nominees) Limited, Winton (B.V.I.) Limited, Winton Financial Limited ("Winton Financial") and Winton Motors, Limited.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) is computed on a consolidated basis including Public Bank (Hong Kong) and Public Finance. The subsidiaries not included in the computation of the consolidated capital adequacy ratio of Public Bank (Hong Kong) are Public Bank (Nominees) Limited, Public Credit Limited (in members' voluntary liquidation), Public Futures Limited, Public Pacific Securities Limited (in members' voluntary liquidation), Public Financial Securities Limited, Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited.

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

Management Discussion and Analysis

OVERVIEW

During the period under review, the economic outlook of Hong Kong was clouded with the risks of fund flow volatilities and weak consumer sentiment in Hong Kong and Mainland China, amidst global monetary/trade policy uncertainties and increase of geopolitical risks. The slowdown of economic growth momentum, caused partly by the lingering Sino-US trade disputes coupled with retaliatory tariffs from time to time, impacted the export performance of goods/services, private consumption growth and the overall gross domestic product growth of Hong Kong.

Nevertheless, the Group continued to conduct its loan and customer deposit businesses cautiously at reasonable interest yields and costs, and continued to diversify revenue sources into fee-based businesses during the period under review.

FINANCIAL REVIEW

Revenue and earnings

For the six months ended 30 June 2019, the Group's profit after tax decreased by HK$3.9 million or 1.5% to HK$257.0 million as compared to the corresponding period in 2018. The Group's basic earnings per share for the six months ended 30 June 2019 was HK$0.23. The Board of Directors has declared an interim dividend of HK$0.05 per share on 25 June 2019, payable on 7 August 2019.

During the period under review, total interest income of the Group increased by HK$69.3 million or 7.6% to HK$985.4 million contributed mainly from the increase in interest on loans and advances; whilst total interest expense increased by HK$95.0 million or 47.3% to HK$296.0 million mainly due to increase in cost of funding of customer deposits. As a result, the Group's net interest income decreased by HK$25.7 million or 3.6% to HK$689.4 million. Other operating income from stockbroking, foreign exchange earnings and other business activities of the Group increased by HK$2.8 million or 2.4% to HK$120.4 million in the period under review.

Operating expenses of the Group increased marginally by HK$2.0 million or 0.4% to HK$439.3 million mainly due to the increase in system and premises related costs.

Credit loss expense increased by HK$18.1 million or 23.1% to HK$96.8 million mainly due to increase in impairment allowances for consumer financing loans and advances during the period under review and recovery of a few large impaired loans in the corresponding period of last year.

Gain in fair value of investment properties increased by HK$31.7 million during the period under review.

Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) recorded a decrease of HK$707.3 million or 2.4% to HK$29.27 billion as at 30 June 2019 from HK$29.97 billion as at 31 December 2018. To mitigate interest rate risk and to address funding need for loan growth, the Group markets for customer deposits at reasonable rates cautiously. The Group's customer deposits declined slightly by HK$4.2 million and remained relatively the same level at HK$35.28 billion as at 30 June 2019 as compared to the position of 31 December 2018. Total assets of the Group stood at HK$46.25 billion as at 30 June 2019.

Group's Branch network

In first half of 2019, Public Bank (Hong Kong), a subsidiary of the Company, opened a new branch in Qianhai of Shenzhen in the People's Republic of China ("PRC"). Together with the opening of the new branch, Public Bank (Hong Kong) has 32 branches in Hong Kong and 5 branches in Shenzhen in the PRC to provide a broad range of commercial and retail banking services. Public Finance, a subsidiary of Public Bank (Hong Kong), has a network of 42 branches in Hong Kong. Winton Financial, another operating subsidiary of the Company which operates under a money lenders licence, has a network of 3 branches in Hong Kong to provide personal financing to its target customer segment. In total, the Group has a combined branch network of 82 branches as at 30 June 2019 to serve its customers.

Management Discussion and Analysis

FINANCIAL REVIEW (Continued)

Business performance in loans and customer deposits

Public Bank (Hong Kong)

During the period under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) decreased by HK$783.6 million or 3.3% to HK$22.86 billion as at 30 June 2019 from HK$23.65 billion as at 31 December 2018. Customer deposits (excluding a deposit from a subsidiary) decreased by HK$133.9 million or 0.4% to HK$29.89 billion as at 30 June 2019 from HK$30.02 billion as at 31 December 2018. Impaired loans to total loans ratio of Public Bank (Hong Kong) was 0.29% as at 30 June 2019.

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

Public Finance

Total loans and advances of Public Finance increased by HK$54.8 million or 0.9% to HK$6.12 billion as at 30 June 2019 from HK$6.06 billion as at 31 December 2018. Customer deposits increased by HK$143.8 million or 2.6% to HK$5.61 billion as at 30 June 2019 from HK$5.47 billion as at 31 December 2018. Impaired loans to total loans ratio of Public Finance was 1.95% as at 30 June 2019.

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

Segmental information

The Group's businesses comprise three main segments: (i) retail and commercial banking businesses, (ii) stockbroking and wealth management services, and (iii) other businesses. For the period under review, 95.8% of the Group's operating income and 86.7% of the profit before tax were contributed by retail and commercial banking businesses. When compared to the first half of 2018, the Group's operating income from retail and commercial banking businesses decreased by HK$22.1 million or 2.8% to HK$775.7 million due to decrease in net interest income. Profit before tax from retail and commercial banking businesses also decreased by HK$32.1 million or 10.7% to HK$268.0 million during the period under review. The Group's operating income from stockbroking and wealth management services increased by HK$0.9 million or 3.6% to HK$26.6 million. Profit before tax from stockbroking and wealth management services increased by HK$0.7 million or 5.3% to HK$13.9 million during the period under review.

Contingent liabilities and commitments

The Group had no material contingent liabilities (other than those in the normal course of its banking and finance businesses related to treasury and trade finance activities and loan commitments disclosed in the notes to the interim financial statements) as at the end of the period under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the period under review. There was no material funding required for capital expenditure and its commitments. The Group did not have plans for material investments or purchases of capital assets in the near term. As at 30 June 2019, there was no charge over the assets of the Group. There was also no important event affecting the Group which had occurred since 30 June 2019.

OPERATIONAL REVIEW

Funding and capital management

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

OPERATIONAL REVIEW (Continued)

Funding and capital management (Continued)

The Group relies principally on its internally generated capital, customer deposits, deposits from financial institutions and the issuance of certificates of deposit to fund its retail and commercial banking business and its consumer financing business. The Group's bank borrowings in the form of term loans denominated in Hong Kong dollars at floating interest rates stood at approximately HK$1.55 billion as at 30 June 2019. Based on the level of bank borrowings as compared to the equity of the Group, the Group's gearing ratio remained at a healthy level of 0.19 times as at 30 June 2019, which was relatively the same as compared to the position of 31 December 2018. The bank borrowings have remaining maturity periods of less than three years. In the normal course of its commercial banking business, Public Bank (Hong Kong) had entered into foreign exchange and interest rate swaps and forward contracts to reduce the foreign exchange rate risk and interest rate risk exposures of the Group. Exposures to fluctuations in foreign exchange rates and interest rates were minimal and constituted less than 1% of equity. There were also no foreign currency investments hedged by foreign currency borrowings and other hedging instruments during the period under review.

The consolidated common equity tier 1 capital ratio and total capital ratio of Public Bank (Hong Kong) Group (inclusive of Public Finance) stood at 18.7% and 19.9% respectively as at 30 June 2019.

Asset quality and credit management

The Group's impaired loans to total loans ratio stood at a healthy level of 0.64% as at 30 June 2019.

The core operations of the Group are principally based in Hong Kong, and direct exposures to United Kingdom and Europe were assessed as insignificant and less than 3% of total asset exposures.

The Group will continue to safeguard its capital adequacy position, manage risks cautiously and undertake prudent yet flexible business development strategies to strike a balance between business growth and prudent risk management.

Human resources management

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

As at 30 June 2019, the Group's staff force stood at 1,329 employees. For the six months ended 30 June 2019, the Group's total staff related costs amounted to HK$278.4 million.

PROSPECTS

The economic outlook and operating environment of Hong Kong and Mainland China are anticipated to be challenging in the remaining months of 2019. The geopolitical risks amongst global nations will continue to cast uncertainties over their political, monetary, fiscal and trade policy developments. The Sino-US trade and political tensions, coupled with the US's bilateral trade policies and retaliatory tariffs, are expected to boost production and transaction costs of traders/manufacturers which have key operations in Mainland China, and affect economic momentum in key industry/service sectors including imports/exports, manufacturing, logistics, and trade finance. The risk appetites for corporate investments and individuals' private consumption are expected to become more conservative with dampening effects on business expansions, corporate credit demand, and consumer financing growth in Hong Kong and Mainland China.

Competition in the banking and financing industry is also expected to intensify with financial institutions seeking greater market share in loans and advances and fee-based business. The Group's loan business and fee-based business growths are expected to be challenging in the near term. However, the Group will continue to safeguard its financial strength, manage risks cautiously and undertake prudent yet flexible business development strategies to maintain/boost business and profitability growth.

Management Discussion and Analysis

PROSPECTS (Continued)

The overall funding costs of customer deposits and bank borrowings are expected to escalate due to the volatilities of fund/capital flows and intensified competition for deposits by banks. The Group will continue to seek loans at reasonable yields in anticipation of higher funding costs. The Group will continue to adopt sound and flexible marketing strategies to expand customer base and channels of services, launch attractive marketing promotions at reasonable costs, and optimise the utilisation of system resources to enhance service quality, resilience of information system and efficiency of banking operations. The Group will also strive for the diversification of income streams by developing fee-based businesses in stockbroking and insurance businesses.

The increase in the need for compliance related resources coupled with rising system related costs in meeting the increased regulatory and supervisory requirements and coping with potential cyber attacks are expected to have an adverse impact on the earnings growth and cost efficiency of financial institutions in Hong Kong. Despite the foregoing, the Group will continue to pursue long-term business and profitability growth in line with its corporate mission and goals. The Group will also adopt prudent capital management and liquidity risk management to preserve adequate buffer to meet the challenges ahead.

The Group will continue to focus on expanding its retail and commercial lending business and its consumer financing business through its branch network, offering of premium business service, supporting its growth in fee-based businesses, and implementing appropriate marketing strategies at reasonable costs. The Group will also continue to target selected market segments of Public Bank (Hong Kong), Public Finance and Winton Financial to grow its retail and commercial lending business and consumer financing business. The Group does not plan to launch new products, services or businesses in large scale but continue to optimise and refine its existing products and services in the near term.

Barring unforeseen circumstances, the Group will endeavour to register growth in its banking and financing businesses and improvement in its financial performance in the second half of 2019. The Group is also committed to fostering a healthy and strong corporate culture to enhance the Group's cohesiveness with shared vision and values by every staff in the Group.

Other Information

INTERIM DIVIDEND

The Board has on 25 June 2019 declared an interim dividend of HK$0.05 (2018: HK$0.05) per share payable on 7 August 2019 to shareholders whose names appear on the register of members of the Company on 24 July 2019.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

In accordance with Rule 13.51B(1) of the Listing Rules, the changes to information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) since publication of the Group's Annual Report 2018 up to 18 July 2019 (being the date of approval of the Group's Interim Report 2019) are set out below:

Changes in other directorships and major appointments

Mr. Lee Huat Oon, an Executive Director of the Company, has been appointed as a member of the Banking and Finance Training Board of Vocational Training Council with effect from 1 April 2019.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Other Information

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, the Directors' interests and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules were as follows:

Long positions in ordinary shares of the Company and associated corporations

			Number of ordinary shares					
Interests in		Name of Directors	Directly beneficially owned	Through spouse or minor children	Through controlled corporations	Other interests	Total	Percentage of interests in the issued share capital %
1.	The Company	Tan Sri Dato' Sri Dr. Teh Hong Piow	–	–	804,017,920	–	804,017,920	73.2312
		Tan Yoke Kong	210,000	–	–	*330,000	540,000	0.0492
		Chong Yam Kiang	20,000	–	–	–	20,000	0.0018
		Lee Huat Oon	20,000	–	–	–	20,000	0.0018
		Dato' Chang Kat Kiam	300,000	–	–	–	300,000	0.0273
2.	Public Bank, the ultimate holding company	Tan Sri Dato' Sri Dr. Teh Hong Piow	24,711,282	–	884,194,971	–	908,906,253	23.4125
		Tan Yoke Kong	44,700	–	–	–	44,700	0.0012
		Chong Yam Kiang	18,840	–	–	–	18,840	0.0005
		Lee Huat Oon	63,142	–	–	–	63,142	0.0016
		Dato' Chang Kat Kiam	125,636	–	–	–	125,636	0.0032
		Lee Chin Guan	200,030	–	–	–	200,030	0.0052
		Lai Wan	–	18,654	–	–	18,654	0.0005
3.	Campu Lonpac Insurance Plc, a fellow subsidiary	Tan Sri Dato' Sri Dr. Teh Hong Piow	–	–	3,850,000	–	3,850,000	55.0000

* Jointly held with another person

Tan Sri Dato' Sri Dr. Teh Hong Piow, by virtue of his direct and indirect interest of 908,906,253 shares in Public Bank, is deemed to be interested in the shares of the Company and its associated corporations as disclosed above, to the extent Public Bank has interests.

Save as disclosed above, none of the Directors had registered an interest or a short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code at the end of the reporting period.

Other Information

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, the register of interests and short positions in the shares and underlying shares of the Company kept under section 336 of the SFO showed that, other than the interests of Tan Sri Dato' Sri Dr. Teh Hong Piow as disclosed above, the following shareholders had interests of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of ordinary shares	Percentage of interests in the issued share capital %
Substantial shareholder			
Public Bank	Beneficial owner	804,017,920	73.2312

All the interests stated above represent long positions. Save as disclosed above and under the heading "Directors' interests and short positions in shares and underlying shares", no person had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded under section 336 of the SFO at the end of the reporting period.

LOAN AGREEMENTS WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

In January 2018, the Company entered into a facility agreement (the "Facility Agreement") with a total of eight financial institutions as the original lenders, Mizuho Bank, Ltd. as the mandated lead arranger and bookrunner and Mizuho Bank, Ltd., Hong Kong Branch as the agent (the "Agent") for a term loan facility in an aggregate amount of up to HK$1,100,000,000 (the "Facility"). The Facility replaced the facility agreement dated 22 August 2014 relating to a HK$1,100,000,000 term loan facility made available to the Company.

The final maturity date of the Facility shall be 48 months after the date of first utilisation of the Facility.

The Facility Agreement provides, among other things, that it is an event of default if Public Bank, the controlling shareholder (currently holding approximately 73.2% interest) of the Company, does not or ceases to beneficially own more than 50% of the issued share capital of, and ownership interests in, the Company free from any security or Public Bank does not or ceases to exercise management control over the Company.

If an event of default occurs, the Agent may, and shall if so directed by the Majority Lenders (as defined in the Facility Agreement) cancel the Facility immediately and demand immediate repayment of all or part of the loan made to the Company together with accrued interest.

The circumstances giving rise to the obligation under Rule 13.18 of the Listing Rules continue to exist.

The aggregate level of facilities (excluding facilities arranged solely for the purpose of contingency funding plan) entered into with the Company and its subsidiaries which may be affected by such breach and required to be disclosed under Rule 13.18 of the Listing Rules amounts to HK$1,100,000,000.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2019.

Other Information

CORPORATE GOVERNANCE

None of the Directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the 2019 Interim Report, in compliance with the code provisions ("Code Provision(s)") of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules, except for the deviations under Code Provision A.4.1 and Code Provision E.1.2 of the CG Code as explained below with considered reasons for such deviations.

Under Code Provision A.4.1 of the CG Code, non-executive directors shall be appointed for a specific term and subject to re-election. The Board is of the view that the current practice of appointing Non-Executive Directors without a specific term but otherwise subject to rotation and re-election by shareholders at an annual general meeting ("AGM") of the Company is fair and reasonable, and does not intend to change the current practice at the moment.

Under Code Provision E.1.2 of the CG Code, the chairman of the board shall attend the AGM. Tan Sri Dato' Sri Dr. Teh Hong Piow, the Board Chairman of the Company, was absent from the 2019 AGM of the Company held in March 2019 due to other engagement. The 2019 AGM was chaired by the Co-Chairman of the Board, Mr. Lai Wan. The Chairmen of the Company's Audit Committee, Remuneration Committee and Nomination Committee, and the respective Chairmen of the Board Committees of Public Bank (Hong Kong) and Public Finance also attended the 2019 AGM to answer questions raised therein, if any.

The Board will keep on reviewing the relevant Bye-laws and propose any amendments, if necessary, to ensure compliance with the CG Code as set out in the Listing Rules.

COMPLIANCE WITH MODEL CODE

The Company has adopted its own code for securities transactions by Directors on terms no less exacting than the required standards set out in the Model Code contained in Appendix 10 of the Listing Rules. All Directors confirmed, following specific enquiry by the Company, that they have complied with the required standards as set out in the Model Code and the Company's own code for securities transactions by Directors throughout the period under review.

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company comprises three Independent Non-Executive Directors, namely Mr. Tang Wing Chew, Mr. Lee Chin Guan and Mr. Lai Wan, and one Non-Executive Director, namely Mr. Quah Poh Keat. The 2019 Interim Report has been reviewed by the Audit Committee.

PUBLICATION OF 2019 INTERIM REPORT

The 2019 Interim Report in electronic form is now available on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.publicfinancial.com.hk. Printed copies are also available upon written request to the Company c/o the Company's Share Registrar, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong specifying the name, address and request to receive the Group's Interim Report in printed copy.

APPRECIATION

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

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

18 July 2019