大眾金融控股有限公司
PUBLIC FINANCIAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability) Stock Code: 626

Excellence
IS OUR
COMMITMENT

Interim Report 2020

Public Financial Holdings Limited
Interim Report 2020

Contents

Corporate Information	2
Condensed Consolidated Income Statement	3
Condensed Consolidated Statement of Comprehensive Income	4
Five-year Financial Summary	5
Condensed Consolidated Statement of Financial Position	6
Condensed Consolidated Statement of Changes in Equity	7
Condensed Consolidated Statement of Cash Flows	8
Notes to Interim Financial Statements	10
Management Discussion and Analysis	63
Other Information	67

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 Director

Tan Yoke Kong

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

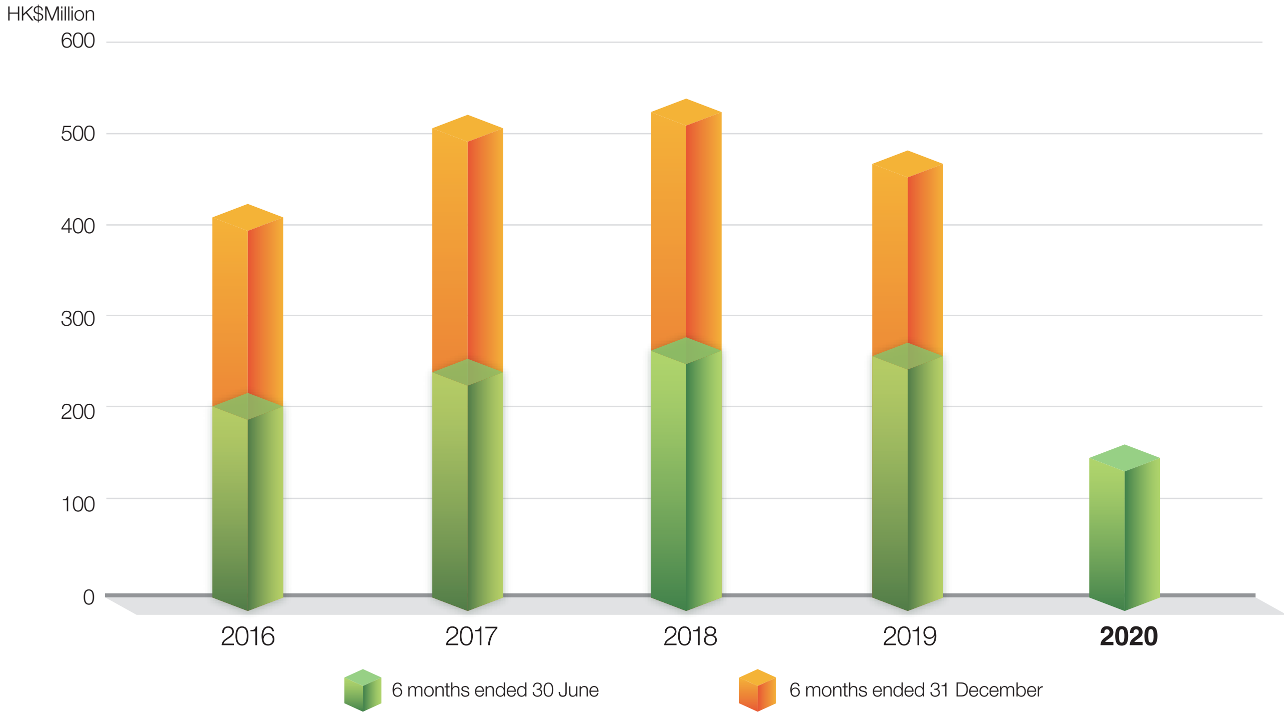
	Notes	For the six months ended 30 June 2020 (Unaudited) HK$'000	2019 (Unaudited) HK$'000
Interest income	7	**876,347**	985,418
Interest expense	7	**(273,039)**	(295,969)
NET INTEREST INCOME		**603,308**	689,449
Other operating income	8	**130,440**	120,421
OPERATING INCOME		**733,748**	809,870
Operating expenses	9	**(427,104)**	(439,289)
Changes in fair value of investment properties		**(11,731)**	35,250
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		**294,913**	405,831
Credit loss expenses	10	**(116,929)**	(96,809)
PROFIT BEFORE TAX		**177,984**	309,022
Tax	11	**(36,859)**	(52,052)
PROFIT FOR THE PERIOD		**141,125**	256,970
ATTRIBUTABLE TO:			
Owners of the Company		**141,125**	256,970
EARNINGS PER SHARE (HK$)	13		
Basic		**0.129**	0.234
Diluted		**0.129**	0.234

Condensed Consolidated Statement of Comprehensive Income

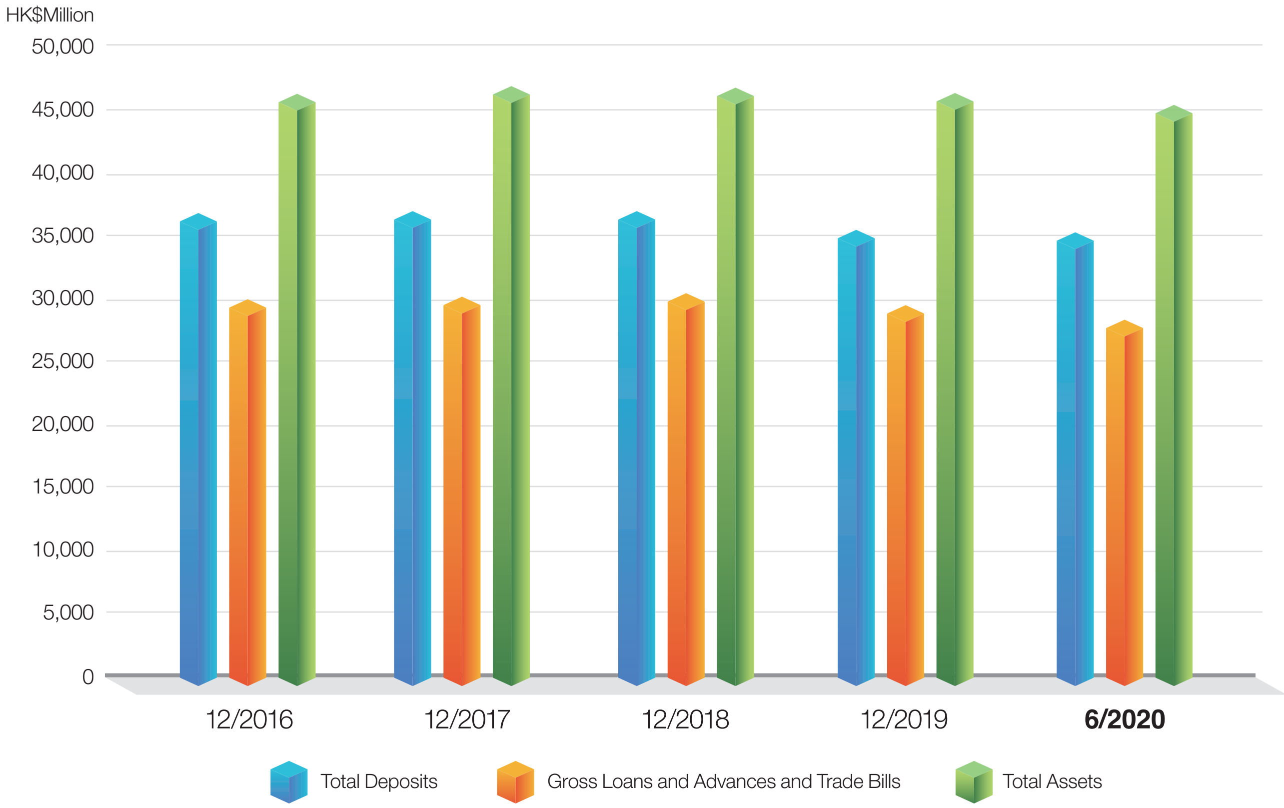
	For the six months ended 30 June 2020 (Unaudited) HK$'000	2019 (Unaudited) HK$'000
PROFIT FOR THE PERIOD	**141,125**	256,970
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations, net of tax	**(20,124)**	(1,209)
Surplus on revaluation of properties	**–**	3,982
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**121,001**	259,743
ATTRIBUTABLE TO:		
Owners of the Company	**121,001**	259,743

Five-year Financial Summary

Profit



Financial Position



Condensed Consolidated Statement of Financial Position

	Notes	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
ASSETS			
Cash and short term placements	14	**4,255,638**	4,444,441
Placements with banks and financial institutions maturing after one month but not more than twelve months	15	**2,172,641**	1,532,536
Derivative financial instruments		**5,205**	15,445
Loans and advances and receivables	16	**27,152,069**	28,630,953
Equity investments at fair value through other comprehensive income	17	**6,804**	6,804
Held-to-collect debt securities at amortised cost	18	**6,476,755**	6,078,760
Investment properties	19	**379,585**	391,316
Property and equipment	20	**183,862**	168,169
Land held under finance leases	21	**684,100**	688,036
Right-of-use assets		**120,986**	128,668
Deferred tax assets		**31,121**	35,233
Tax recoverable		**424**	–
Goodwill		**2,774,403**	2,774,403
Intangible assets	22	**718**	718
Other assets	23	**260,996**	327,358
TOTAL ASSETS		**44,505,307**	45,222,840
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**414,157**	787,235
Derivative financial instruments		**6,480**	4,651
Customer deposits at amortised cost	24	**33,781,569**	33,917,425
Dividends payable		**32,938**	164,688
Unsecured bank loans at amortised cost	25	**1,555,214**	1,542,693
Lease liabilities		**125,715**	132,944
Current tax payable		**15,803**	63,253
Deferred tax liabilities		**41,556**	41,186
Other liabilities	23	**466,426**	591,379
TOTAL LIABILITIES		**36,439,858**	37,245,454
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		**109,792**	109,792
Reserves	26	**7,955,657**	7,867,594
TOTAL EQUITY		**8,065,449**	7,977,386
TOTAL EQUITY AND LIABILITIES		**44,505,307**	45,222,840

Condensed Consolidated Statement of Changes in Equity

	Note	For the six months ended 30 June 2020 (Unaudited) HK$'000	2019 (Unaudited) HK$'000
TOTAL EQUITY			
Balance at the beginning of the period		**7,977,386**	7,741,223
Profit for the period		**141,125**	256,970
Other comprehensive income in translation reserve		**(20,124)**	(1,209)
Other comprehensive income in property revaluation reserve		**–**	3,982
Total comprehensive income for the period		**121,001**	259,743
Dividends declared on shares	12(a)	**(32,938)**	(54,896)
Balance at the end of the period		**8,065,449**	7,946,070

Condensed Consolidated Statement of Cash Flows

	Notes	For the six months ended 30 June 2020 (Unaudited) HK$'000	2019 (Unaudited) HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**177,984**	309,022
Adjustments for:			
Dividend income from listed investments	8	**(79)**	(69)
Dividend income from unlisted investments	8	**(35)**	(35)
Depreciation of property and equipment and land held under finance leases	9	**20,435**	17,734
Depreciation of right-of-use assets	9	**32,628**	32,855
Other interest expenses	7	**1,739**	1,790
Gain on termination of leases	8	**(709)**	(916)
Payment of dismantling costs		**(183)**	–
Net (gains)/losses on disposal of property and equipment	8	**(7)**	54
(Decrease)/increase in credit loss expenses for loans and advances and receivables		**(14,416)**	5,183
Increase in credit loss expenses for held-to-collect debt securities at amortised cost and bank placements		**90**	101
Decrease/(increase) in fair value of investment properties		**11,731**	(35,250)
Exchange differences		**(19,565)**	(1,182)
Profits tax paid		**(80,829)**	(18,303)
Operating profit before changes in operating assets and liabilities		**128,784**	310,984
Decrease in operating assets:			
(Increase)/decrease in placements with banks and financial institutions		**(241,288)**	295,333
Decrease in loans and advances and receivables		**1,493,300**	702,769
Increase in held-to-collect debt securities at amortised cost		**(431,375)**	(431,680)
Decrease/(increase) in other assets		**66,362**	(33,215)
Decrease/(increase) in derivative financial instruments		**10,240**	(5,484)
		897,239	527,723
(Decrease)/increase in operating liabilities:			
(Decrease)/increase in deposits and balances of banks and other financial institutions at amortised cost		**(373,078)**	125,519
Decrease in customer deposits at amortised cost		**(135,856)**	(4,179)
Increase/(decrease) in derivative financial instruments		**1,829**	(7,128)
(Decrease)/increase in other liabilities		**(124,967)**	59,416
		(632,072)	173,628
Net cash inflow from operating activities		**393,951**	1,012,335

Condensed Consolidated Statement of Cash Flows

	Notes	For the six months ended 30 June 2020 (Unaudited) HK$'000	2019 (Unaudited) HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	20	**(32,323)**	(30,944)
Sales proceeds from disposal of property and equipment		**138**	68
Dividends received from listed investments		**79**	69
Dividends received from unlisted investments		**35**	35
Net cash outflow from investing activities		**(32,071)**	(30,772)
CASH FLOWS FROM FINANCING ACTIVITIES			
New unsecured bank loans		**12,521**	101,414
Repayment of lease liabilities		**(32,989)**	(33,768)
Dividends paid on shares		**(164,688)**	(186,646)
Net cash outflow from financing activities		**(185,156)**	(119,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**176,724**	862,563
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**5,028,421**	4,104,382
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**5,205,145**	4,966,945
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand		**1,113,839**	1,050,460
Money at call and short notice with an original maturity within three months		**3,142,206**	3,259,439
Placements with banks and financial institutions with an original maturity within three months		**749,380**	200,502
Held-to-collect debt securities at amortised cost with an original maturity within three months		**199,720**	456,544
		5,205,145	4,966,945
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		**(349,323)**	(251,162)
Interest received		**902,200**	978,486

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 Futures Limited	2	–	100	Dormant
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

Notes to Interim Financial Statements

1. CORPORATE AND GROUP INFORMATION (Continued)

Name	Issued ordinary share capital HK$	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Winton Financial Limited	4,000,010	–	100	Provision 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

Notes:

1. 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), which operates in Hong Kong and Mainland China, all subsidiaries operate in Hong Kong.

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

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 2019 Annual Report.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's 2019 Annual Report, except for the changes in accounting policies as set out in note 5 below.

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 2020.

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).

Notes to Interim Financial Statements

3. BASIS OF CONSOLIDATION (Continued)

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.

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 ("SFC") of Hong Kong.

4. BASIS OF CAPITAL DISCLOSURES (Continued)

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

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

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

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

The amendments to HKAS 1 and HKAS 8 provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

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

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

Notes to Interim Financial Statements

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

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

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

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

Issued but not yet effective HKFRSs

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

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

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

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

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

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:

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

- retail and commercial banking businesses segment mainly comprises the provision of deposit account services, the extension of mortgages and consumer lending, hire purchase and leasing, provision of financing to purchasers of licensed public vehicles such as taxis and public light buses, provision of services and financing activities for customers in trading, manufacturing and various business sectors, foreign exchange activities, centralised cash management for deposit taking and lending, interest rate risk management and the overall funding management of the Group;

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

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

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

	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	
	2020 (Unaudited) HK$'000	2019 (Unaudited) HK$'000	**2020 (Unaudited) HK$'000**	2019 (Unaudited) HK$'000	**2020 (Unaudited) HK$'000**	2019 (Unaudited) HK$'000	**2020 (Unaudited) HK$'000**	2019 (Unaudited) HK$'000
Segment revenue								
External:								
Net interest income/(expense)	**603,642**	689,856	**(334)**	(407)	**–**	–	**603,308**	689,449
Other operating income:								
Net fees and commission income	**62,192**	72,945	**35,967**	27,002	**52**	151	**98,211**	100,098
Others	**24,791**	12,895	**186**	(1)	**7,252**	7,429	**32,229**	20,323
Operating income	**690,625**	775,696	**35,819**	26,594	**7,304**	7,580	**733,748**	809,870
Operating profit/(loss) after credit loss expenses before tax	**173,527**	268,036	**16,228**	13,895	**(11,771)**	27,091	**177,984**	309,022
Tax							**(36,859)**	(52,052)
Profit for the period							**141,125**	256,970
Other segment information								
Depreciation of property and equipment and land held under finance leases	**(20,435)**	(17,734)	**–**	–	**–**	–	**(20,435)**	(17,734)
Depreciation of right-of-use assets	**(32,628)**	(32,855)	**–**	–	**–**	–	**(32,628)**	(32,855)
Changes in fair value of investment properties	**–**	–	**–**	–	**(11,731)**	35,250	**(11,731)**	35,250
Credit loss expenses	**(116,929)**	(96,809)	**–**	–	**–**	–	**(116,929)**	(96,809)
Net gains/(losses) on disposal of property and equipment	**7**	(54)	**–**	–	**–**	–	**7**	(54)

Notes to Interim Financial Statements

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

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

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000	**30 June 2020 (Unaudited) HK$'000**	31 December 2019 (Audited) HK$'000	**30 June 2020 (Unaudited) HK$'000**	31 December 2019 (Audited) HK$'000	**30 June 2020 (Unaudited) HK$'000**	31 December 2019 (Audited) HK$'000
Segment assets other than intangible assets and goodwill	**40,943,768**	41,595,033	**374,969**	425,413	**379,904**	392,040	**41,698,641**	42,412,486
Intangible assets	**–**	–	**718**	718	**–**	–	**718**	718
Goodwill	**2,774,403**	2,774,403	**–**	–	**–**	–	**2,774,403**	2,774,403
Segment assets	**43,718,171**	44,369,436	**375,687**	426,131	**379,904**	392,040	**44,473,762**	45,187,607
Unallocated assets:								
Deferred tax assets and tax recoverable							**31,545**	35,233
Total assets							**44,505,307**	45,222,840
Segment liabilities	**36,226,769**	36,784,169	**117,529**	184,779	**5,263**	7,379	**36,349,561**	36,976,327
Unallocated liabilities:								
Deferred tax liabilities and tax payable							**57,359**	104,439
Dividends payable							**32,938**	164,688
Total liabilities							**36,439,858**	37,245,454
Other segment information								
Additions to non-current assets – capital expenditure	**32,323**	49,289	**–**	–	**–**	–	**32,323**	49,289

6. SEGMENT INFORMATION (Continued)

Geographical information

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

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

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Segment revenue from external customers:		
Hong Kong	**671,362**	743,087
Mainland China	**62,386**	66,783
	733,748	809,870

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 2020 and 31 December 2019.

	30 June 2020	31 December 2019
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Non-current assets:		
Hong Kong	**4,121,671**	4,126,160
Mainland China	**21,983**	25,150
	4,143,654	4,151,310

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

Operating income or revenue from major customers

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

Notes to Interim Financial Statements

7. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June 2020 (Unaudited) HK$'000	2019 (Unaudited) HK$'000
Interest income from:		
Loans and advances and receivables	**779,516**	854,291
Short term placements and placements with banks	**38,096**	60,758
Held-to-collect debt securities at amortised cost	**58,735**	70,369
	876,347	985,418
Interest expense on:		
Deposits from banks and financial institutions	**3,929**	7,830
Deposits from customers	**243,302**	263,403
Bank loans	**24,069**	22,946
Others	**1,739**	1,790
	273,039	295,969

Interest income and interest expense for the six months ended 30 June 2020, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss ("FVPL"), amounted to HK$876,347,000 and HK$273,039,000 (2019: HK$985,418,000 and HK$295,969,000) respectively.

8. OTHER OPERATING INCOME

	For the six months ended 30 June 2020 (Unaudited) HK$'000	2019 (Unaudited) HK$'000
Fees and commission income:		
Retail and commercial banking and other businesses	**63,305**	74,099
Wealth management services, stockbroking and securities management	**35,967**	27,002
	99,272	101,101
Less: Fees and commission expenses	**(1,061)**	(1,003)
Net fees and commission income	**98,211**	100,098
Gross rental income	**7,290**	7,419
Less: Direct operating expenses	**(38)**	(37)
Net rental income	**7,252**	7,382
Gains less losses arising from dealing in foreign currencies	**13,159**	2,988
Net (losses)/gains on derivative financial instruments	**(1,275)**	7,877
	11,884	10,865
Net gains/(losses) on disposal of property and equipment	**7**	(54)
Gain on termination of leases	**709**	916
Dividend income from listed investments	**79**	69
Dividend income from unlisted investments	**35**	35
Government subsidies	**11,495**	–
Others	**768**	1,110
	130,440	120,421

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

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

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

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

Notes to Interim Financial Statements

9. OPERATING EXPENSES

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Staff costs:		
Salaries and other staff costs	**252,158**	266,100
Pension contributions	**13,632**	12,354
Less: Forfeited contributions	**(50)**	(82)
Net contribution to retirement benefit schemes	**13,582**	12,272
	265,740	278,372
Other operating expenses:		
Depreciation of right-of-use assets	**32,628**	32,855
Depreciation of property and equipment and land held under finance leases	**20,435**	17,734
Administrative and general expenses	**41,610**	42,238
Others	**66,691**	68,090
Operating expenses before changes in fair value of investment properties	**427,104**	439,289

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

10. CREDIT LOSS EXPENSES

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

	For the six months ended 30 June 2020 (Unaudited)			
	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	**(12,648)**	**(6,147)**	**135,961**	**117,166**
– trade bills, accrued interest and other receivables	**(390)**	**(14)**	**80**	**(324)**
– cash and short term placements	**(12)**	**–**	**–**	**(12)**
– placements with banks and financial institutions	**64**	**–**	**–**	**64**
– held-to-collect debt securities at amortised cost	**38**	**–**	**–**	**38**
– loan commitments	**(3)**	**–**	**–**	**(3)**
	(12,951)	**(6,161)**	**136,041**	**116,929**

	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)
	325	5,374	91,110	96,809

Notes to Interim Financial Statements

11. TAX

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current tax charge:		
Hong Kong	**21,441**	40,421
Overseas	**11,466**	12,770
Deferred tax charge/(credit), net	**3,952**	(1,139)
	36,859	52,052

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

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rates for the jurisdictions in which the 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 2020 (Unaudited)					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**131,709**		**46,275**		**177,984**	
Tax at the applicable tax rate	**21,732**	**16.5**	**11,569**	**25.0**	**33,301**	**18.7**
Estimated tax effect of net expenses that are not deductible	**3,339**	**2.5**	**219**	**0.5**	**3,558**	**2.0**
Tax charge at the Group's effective rate	**25,071**	**19.0**	**11,788**	**25.5**	**36,859**	**20.7**

Notes to Interim Financial Statements

11. TAX (Continued)

	For the six months ended 30 June 2019 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	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 effect of net (income)/ expenses that is/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

12. DIVIDENDS

(a) Dividends declared during the interim period

	For the six months ended 30 June			
	2020 (Unaudited) HK$ per ordinary share	2019 (Unaudited) HK$ per ordinary share	**2020 (Unaudited) HK$'000**	2019 (Unaudited) HK$'000
Interim dividend	**0.03**	0.05	**32,938**	54,896

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

	For the six months ended 30 June			
	2020 (Unaudited) HK$ per ordinary share	2019 (Unaudited) HK$ per ordinary share	**2020 (Unaudited) HK$'000**	2019 (Unaudited) HK$'000
Second interim dividend in respect of the previous period	**0.15**	0.17	**164,688**	186,646

13. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit for the period of HK$141,125,000 (2019: HK$256,970,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2019: 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 2020 and 30 June 2019.

Notes to Interim Financial Statements

14. CASH AND SHORT TERM PLACEMENTS

	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Cash on hand	**172,362**	239,744
Placements with banks and financial institutions	**941,477**	888,982
Money at call and short notice	**3,142,206**	3,316,134
Gross cash and short term placements	**4,256,045**	4,444,860
Less: Impairment allowances collectively assessed		
As at 1 January 2020 and 2019	**(419)**	(379)
Credit loss expenses released/(charged) to the consolidated income statement during the period/year	**12**	(40)
	(407)	(419)
Cash and short term placements	**4,255,638**	4,444,441

Over 90% (31 December 2019: over 90%) of the placements were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's Investors Service ("Moody's"), an external credit agency.

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

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

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

Over 90% (31 December 2019: over 90%) of the placements maturing after one month but not more than twelve months were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's.

There were no overdue or rescheduled placements with banks and financial institutions maturing after one month but not more than twelve months and no impairment allowances specifically assessed for such placements accordingly.

Notes to Interim Financial Statements

16. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Loans and advances to customers	**27,250,353**	28,720,607
Trade bills	**20,445**	34,195
Loans and advances, and trade bills	**27,270,798**	28,754,802
Accrued interest	**70,528**	78,340
	27,341,326	28,833,142
Other receivables	**14,773**	16,257
Gross loans and advances and receivables	**27,356,099**	28,849,399
Less: Impairment allowances*		
– specifically assessed	**(73,869)**	(69,083)
– collectively assessed	**(130,161)**	(149,363)
	(204,030)	(218,446)
Loans and advances and receivables	**27,152,069**	28,630,953

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

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

Notes to Interim Financial Statements

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

Loans and advances and receivables are summarised as follows:

	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Neither past due nor impaired loans and advances and receivables	**26,533,189**	28,109,726
Past due but not impaired loans and advances and receivables	**611,409**	542,502
Credit impaired loans and advances	**205,935**	192,737
Credit impaired receivables	**5,566**	4,434
Gross loans and advances and receivables	**27,356,099**	28,849,399

About 65% (31 December 2019: about 63%) of "Neither past due nor impaired loans and advances and receivables" were property mortgage loans and hire purchase loans secured by properties, taxi licences, public light bus licences and vehicles.

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

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	Gross amount HK$'000	Percentage of total loans and advances %	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	**83,099**	**0.31**	69,725	0.24
One year or less but over six months	**16,192**	**0.06**	10,869	0.04
Over one year	**35,711**	**0.13**	30,646	0.11
Loans and advances overdue for more than three months	**135,002**	**0.50**	111,240	0.39
Rescheduled loans and advances overdue for three months or less	**62,149**	**0.23**	67,422	0.23
Impaired loans and advances overdue for three months or less	**8,784**	**0.03**	14,075	0.05
Total overdue and impaired loans and advances	**205,935**	**0.76**	192,737	0.67

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**393**	430
One year or less but over six months	**527**	562
Over one year	**4,614**	3,265
Trade bills, accrued interest and other receivables overdue for more than three months	**5,534**	4,257
Impaired trade bills, accrued interest and other receivables overdue for three months or less	**32**	177
Total overdue and impaired trade bills, accrued interest and other receivables	**5,566**	4,434

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

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

	30 June 2020 (Unaudited)			31 December 2019 (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	**96,613**	**43,923**	**140,536**	75,678	39,819	115,497
Impairment allowances specifically assessed	**52,178**	**4**	**52,182**	46,187	4	46,191
Current market value and fair value of collateral			**119,947**			87,374

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 (Continued)

	30 June 2020 (Unaudited) Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000	31 December 2019 (Audited) Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**167,578**	**43,923**	**211,501**	157,352	39,819	197,171
Impairment allowances specifically assessed	**73,865**	**4**	**73,869**	69,079	4	69,083
Current market value and fair value of collateral			**129,833**			117,829

Over 90% (31 December 2019: over 90%) of the Group's gross loans and advances and receivables were derived from operations carried out in Hong Kong. Accordingly, no geographical segment information of gross loans and advances and receivables is presented herein.

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

	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**119,947**	87,374
Covered portion of overdue loans and advances	**67,858**	50,011
Uncovered portion of overdue loans and advances	**67,144**	61,229

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: (Continued)

The assets taken as collateral should satisfy the following criteria:

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

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

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

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

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

– Central governments with a grading of Aa3 or above

– Unrated public sector enterprises

– Banks with a grading of Baa2 or above

– Unrated corporations

– Individual shareholders and directors of corporate customers

(d) Repossessed assets

As at 30 June 2020, the total value of repossessed assets of the Group amounted to HK$15,430,000 (31 December 2019: HK$10,170,000).

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

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	Gross amount HK$'000	**Percentage of total loans and advances %**	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for three months or less	**607,411**	**2.23**	539,581	1.88
Trade bills, accrued interest and other receivables overdue for three months or less	**3,998**		2,921	

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

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

	30 June 2020 (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 2020	28,402,801	249,427	197,171	28,849,399
New loans/financing originated	4,951,454	229	479	4,952,162
Loans/financing derecognised or repaid during the period (other than write-offs)	(6,213,106)	(37,506)	(13,095)	(6,263,707)
Transfer to 12-month expected credit loss (Stage 1)	84,772	(51,482)	(33,290)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(222,227)	224,304	(2,077)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(183,401)	(60,667)	244,068	–
Total transfer between stages	(320,856)	112,155	208,701	–
Write-offs	–	–	(181,755)	(181,755)
As at 30 June 2020	26,820,293	324,305	211,501	27,356,099
Arising from:				
Loans and advances	26,723,019	321,399	205,935	27,250,353
Trade bills, accrued interest and other receivables	97,274	2,906	5,566	105,746
	26,820,293	324,305	211,501	27,356,099

The amount outstanding on financial assets that were written off during the period and are still subject to enforcement action amounted to HK$149,152,000.

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 2019 (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 2019	29,701,281	172,349	198,525	30,072,155
New loans/financing originated	8,290,617	142	1,325	8,292,084
Loans/financing derecognised or repaid during the year (other than write-offs)	(9,112,871)	(40,771)	(43,947)	(9,197,589)
Transfer to 12-month expected credit loss (Stage 1)	51,973	(25,148)	(26,825)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(176,976)	186,288	(9,312)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(351,223)	(43,433)	394,656	–
Total transfer between stages	(476,226)	117,707	358,519	–
Write-offs	–	–	(317,251)	(317,251)
As at 31 December 2019	28,402,801	249,427	197,171	28,849,399
Arising from:				
Loans and advances	28,280,321	247,549	192,737	28,720,607
Trade bills, accrued interest and other receivables	122,480	1,878	4,434	128,792
	28,402,801	249,427	197,171	28,849,399

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK$254,695,000.

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 2020 (Unaudited)			
	Stage 1 HK$'000	**Stage 2 HK$'000**	**Stage 3 HK$'000**	**Total HK$'000**
Internal rating grades:				
Performing				
Pass	**26,451,259**	**–**	**–**	**26,451,259**
Special Mention	**369,034**	**324,305**	**–**	**693,339**
Non-performing				
Substandard	**–**	**–**	**140,525**	**140,525**
Doubtful	**–**	**–**	**19,070**	**19,070**
Loss	**–**	**–**	**51,906**	**51,906**
Total	**26,820,293**	**324,305**	**211,501**	**27,356,099**

	31 December 2019 (Audited)			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Internal rating grades:				
Performing				
Pass	28,229,561	–	–	28,229,561
Special Mention	173,240	249,427	–	422,667
Non-performing				
Substandard	–	–	134,448	134,448
Doubtful	–	–	50,870	50,870
Loss	–	–	11,853	11,853
Total	28,402,801	249,427	197,171	28,849,399

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 2020 (Unaudited)			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
As at 1 January 2020	111,417	37,946	69,083	218,446
New loans/financing originated	39,604	–	66	39,670
Loans/financing derecognised or repaid during the period (other than write-offs)	(48,184)	(5,488)	(54,758)	(108,430)
Transfer to 12-month expected credit loss (Stage 1)	5,804	(1,010)	(4,794)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(2,171)	2,692	(521)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(6,658)	(27,684)	34,342	–
Total transfer between stages	(3,025)	(26,002)	29,027	–
Impact on period end expected credit loss of exposures transferred between stages during the period	(2,570)	25,270	136,405	159,105
Movements due to changes in credit risk	1,134	59	25,301	26,494
Recoveries	–	–	50,500	50,500
Write-offs	–	–	(181,755)	(181,755)
As at 30 June 2020	98,376	31,785	73,869	204,030
Arising from:				
Loans and advances	96,956	31,774	73,658	202,388
Trade bills, accrued interest and other receivables	1,351	11	211	1,573
Loan commitments	66	–	–	66
Financial guarantees and letters of credit	3	–	–	3
	98,376	31,785	73,869	204,030

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 2019 (Audited)			
	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	78,392	–	34	78,426
Loans/financing derecognised or repaid during the year (other than write-offs)	(70,368)	(5,788)	(125,890)	(202,046)
Transfer to 12-month expected credit loss (Stage 1)	3,486	(532)	(2,954)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(2,374)	2,697	(323)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(9,708)	(23,109)	32,817	–
Total transfer between stages	(8,596)	(20,944)	29,540	–
Impact on year end expected credit loss of exposures transferred between stages during the year	(413)	35,109	282,289	316,985
Movements due to changes in credit risk	3,501	–	25,228	28,729
Recoveries	–	–	119,027	119,027
Write-offs	–	–	(317,251)	(317,251)
As at 31 December 2019	111,417	37,946	69,083	218,446
Arising from:				
Loans and advances	109,604	37,921	68,952	216,477
Trade bills, accrued interest and other receivables	1,741	25	131	1,897
Loan commitments	69	–	–	69
Financial guarantees and letters of credit	3	–	–	3
	111,417	37,946	69,083	218,446

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

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

17. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

Notes to Interim Financial Statements

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

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

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

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

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

19. INVESTMENT PROPERTIES

	HK$'000
At valuation:	
As at 1 January 2019	345,715
Transfer to property and equipment	(1,618)
Transfer to land held under finance leases	(31,037)
Transfer from property and equipment	515
Transfer from land held under finance leases	11,199
Changes in fair value recognised in the consolidated income statement	62,560
Changes in fair value recognised in the consolidated statement of comprehensive income	3,982
As at 31 December 2019 and 1 January 2020 (Audited)	**391,316**
Changes in fair value recognised in the consolidated income statement	**(11,731)**
As at 30 June 2020 (Unaudited)	**379,585**

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

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

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

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

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	Range HK$	**Weighted average HK$**	Range HK$	Weighted average HK$
Price per square metre	**31,000 to 563,000**	**204,000**	32,000 to 581,000	210,000

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 2019	82,538	298,158	2,284	382,980
Transfer to investment properties	(638)	–	–	(638)
Transfer from investment properties	1,618	–	–	1,618
Additions	–	49,109	180	49,289
Disposals/write-off	–	(5,527)	(150)	(5,677)
As at 31 December 2019 and 1 January 2020 (Audited)	**83,518**	**341,740**	**2,314**	**427,572**
Additions	**–**	**32,323**	**–**	**32,323**
Disposals/write-off	**–**	**(4,843)**	**–**	**(4,843)**
As at 30 June 2020 (Unaudited)	**83,518**	**369,220**	**2,314**	**455,052**
Accumulated depreciation:				
As at 1 January 2019	27,303	208,663	1,924	237,890
Provided during the year	1,683	25,332	110	27,125
Transfer to investment properties	(123)	–	–	(123)
Disposals/write-off	–	(5,339)	(150)	(5,489)
As at 31 December 2019 and 1 January 2020 (Audited)	**28,863**	**228,656**	**1,884**	**259,403**
Provided during the period	**835**	**15,603**	**61**	**16,499**
Disposals/write-off	**–**	**(4,712)**	**–**	**(4,712)**
As at 30 June 2020 (Unaudited)	**29,698**	**239,547**	**1,945**	**271,190**
Net carrying amount:				
As at 30 June 2020 (Unaudited)	**53,820**	**129,673**	**369**	**183,862**
As at 31 December 2019 (Audited)	54,655	113,084	430	168,169

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

21. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
As at 1 January 2019	796,653
Transfer to investment properties	(12,262)
Transfer from investment properties	31,037
As at 31 December 2019, 1 January 2020 (Audited) and 30 June 2020 (Unaudited)	**815,428**
Accumulated depreciation and impairment:	
As at 1 January 2019	120,580
Transfer to investment properties	(1,063)
Depreciation provided during the year	7,875
As at 31 December 2019 and 1 January 2020 (Audited)	**127,392**
Depreciation provided during the period	**3,936**
As at 30 June 2020 (Unaudited)	**131,328**
Net carrying amount:	
As at 30 June 2020 (Unaudited)	**684,100**
As at 31 December 2019 (Audited)	688,036

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

Notes to Interim Financial Statements

22. INTANGIBLE ASSETS

	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Cost:		
At the beginning and the end of the period/year	**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 2019: five units) of Stock Exchange Trading Right and one unit (31 December 2019: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

23. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Interest receivables from financial institutions	**18,000**	36,040
Other debtors, deposits and prepayments	**242,351**	235,574
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	**645**	55,744
	260,996	327,358

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

23. OTHER ASSETS AND OTHER LIABILITIES (Continued)

Other liabilities

	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Creditors, accruals and other payables	**272,787**	419,496
Interest payable	**87,763**	164,048
Net amount of accounts payable to HKSCC	**83,534**	7,835
Deferred income – government subsidies	**22,342**	–
	466,426	591,379

24. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Demand deposits and current accounts	**4,372,046**	4,704,152
Savings deposits	**6,773,553**	6,069,506
Time, call and notice deposits	**22,635,970**	23,143,767
	33,781,569	33,917,425

25. UNSECURED BANK LOANS AT AMORTISED COST

	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Unsecured bank loans	**1,555,214**	1,542,693
Repayable:		
On demand or within a period not exceeding one year	**461,000**	450,000
Within a period of more than one year but not exceeding two years	**1,094,214**	–
Within a period of more than two years but not exceeding five years	**–**	1,092,693
	1,555,214	1,542,693

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.

Notes to Interim Financial Statements

26. RESERVES

	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 2019	4,013,296	829	96,116	–	296,540	3,212,481	12,169	7,631,431
Profit for the year	–	–	–	–	–	466,340	–	466,340
Other comprehensive income	–	–	–	3,982	–	–	(14,575)	(10,593)
Transfer from regulatory reserve to retained profits	–	–	–	–	(88,805)	88,805	–	–
Dividends for 2019	–	–	–	–	–	(219,584)	–	(219,584)
As at 31 December 2019 and 1 January 2020 (Audited)	**4,013,296**	**829**	**96,116**	**3,982**	**207,735**	**3,548,042**	**(2,406)**	**7,867,594**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**141,125**	**–**	**141,125**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**(20,124)**	**(20,124)**
Transfer from regulatory reserve to retained profits	**–**	**–**	**–**	**–**	**(156,187)**	**156,187**	**–**	**–**
Dividends declared	**–**	**–**	**–**	**–**	**–**	**(32,938)**	**–**	**(32,938)**
As at 30 June 2020 (Unaudited)	**4,013,296**	**829**	**96,116**	**3,982**	**51,548**	**3,812,416**	**(22,530)**	**7,955,657**

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. LEASES

(a) As lessor

The Group leases its investment properties in note 19 to the interim financial statements under operating lease arrangements, and the terms of the leases range from 1 to 3 years.

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

	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Within one year	**8,358**	10,222
In the second to fifth years, inclusive	**1,231**	4,975
	9,589	15,197

(b) As lessee

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

	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Within one year	**1,847**	1,271
In the second to fifth years, inclusive	**4,475**	1,992
	6,322	3,263

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 the period:

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

	30 June 2020 (Unaudited) Contractual amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	9,880

28. OFF-BALANCE SHEET EXPOSURE (Continued)

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

	31 December 2019 (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	26,492	26,492	21,787	–	–
Transaction-related contingencies	8,410	4,204	775	–	–
Trade-related contingencies	9,507	1,901	1,811	–	–
Forward forward deposits placed	–	–	–	–	–
Forward asset purchases	–	–	–	–	–
	44,409	32,597	24,373	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	1,013,380	25,620	7,107	15,445	4,651
Other commitments with an original maturity of:					
More than one year	519	260	260	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,231,474	–	–	–	–
	4,289,782	58,477	31,740	15,445	4,651

	31 December 2019 (Audited) Contractual amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	21,191

Notes to Interim Financial Statements

28. OFF-BALANCE SHEET EXPOSURE (Continued)

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

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

(b) Derivative financial instruments

The Group uses the following derivative financial instruments:

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

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

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

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 2020 (Unaudited) HK$'000	For the six months ended 30 June 2019 (Unaudited) HK$'000
Related party transactions included in the consolidated income statement:		
Interest paid and payable to the ultimate holding company and fellow subsidiaries	**6,208**	5,748
Deposit interest and commitment fees paid to the ultimate holding company and fellow subsidiaries	**2,050**	2,040
Key management personnel compensation:		
– short term employee benefits	**4,064**	4,753
– post-employment benefits	**212**	304
Interest paid to key management personnel	**26**	12
Commission fee income from key management personnel	**2**	4

	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Related party transactions included in the consolidated statement of financial position:		
Cash and short term funds with the ultimate holding company	**5,579**	120
Deposits from the ultimate holding company and fellow subsidiaries	**14,965**	13,739
Bank loans from the ultimate holding company and a fellow subsidiary	**461,000**	450,000
Interest payable to the ultimate holding company and a fellow subsidiary	**160**	572
Loans to key management personnel	**2**	18
Deposits from key management personnel	**2,849**	2,508
Interest payable to key management personnel	**16**	9

Notes to Interim Financial Statements

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 interim financial statements.

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

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

Fixed rate financial instruments

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

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

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

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

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

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

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

For financial instruments measured at fair value on a recurring basis, the Group determines whether transfer has occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. Finance and Control Department performs the valuation of financial instruments required for financial reporting purposes, including Level 3 fair values, at the end of each reporting period. The impact due to changes in fair value of Level 3 financial instruments is insignificant to the Group.

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

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

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

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

Notes to Interim Financial Statements

31. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	30 June 2020 (Unaudited)							
	Repayable on demand 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	**1,113,839**	**3,142,206**	**–**	**–**	**–**	**–**	**–**	**4,256,045**
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	**–**	**–**	**1,883,633**	**289,225**	**–**	**–**	**–**	**2,172,858**
Gross loans and advances and receivables	**215,541**	**2,003,042**	**836,548**	**3,170,968**	**7,005,461**	**13,913,038**	**211,501**	**27,356,099**
Equity investments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**6,804**	**6,804**
Gross held-to-collect debt securities at amortised cost	**–**	**477,775**	**781,567**	**4,408,162**	**809,899**	**–**	**–**	**6,477,403**
Other assets	**84**	**166,047**	**14,064**	**43,224**	**1,504**	**–**	**36,073**	**260,996**
Gross foreign exchange contracts	**55,363**	**882,100**	**–**	**–**	**–**	**–**	**–**	**937,463**
Total financial assets	**1,384,827**	**6,671,170**	**3,515,812**	**7,911,579**	**7,816,864**	**13,913,038**	**254,378**	**41,467,668**
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	**46,441**	**277,716**	**50,000**	**40,000**	**–**	**–**	**–**	**414,157**
Customer deposits at amortised cost	**11,196,279**	**6,606,321**	**11,962,339**	**4,009,894**	**6,736**	**–**	**–**	**33,781,569**
Unsecured bank loans at amortised cost	**–**	**86,000**	**–**	**375,000**	**1,094,214**	**–**	**–**	**1,555,214**
Lease liabilities	**–**	**5,003**	**9,783**	**37,462**	**65,689**	**7,778**	**–**	**125,715**
Other liabilities	**2,787**	**213,318**	**38,430**	**14,721**	**115**	**–**	**197,055**	**466,426**
Gross foreign exchange contracts	**55,398**	**883,340**	**–**	**–**	**–**	**–**	**–**	**938,738**
Total financial liabilities	**11,300,905**	**8,071,698**	**12,060,552**	**4,477,077**	**1,166,754**	**7,778**	**197,055**	**37,281,819**
Net liquidity gap	**(9,916,078)**	**(1,400,528)**	**(8,544,740)**	**3,434,502**	**6,650,110**	**13,905,260**	**57,323**	**4,185,849**

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

	31 December 2019 (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	1,128,726	3,316,134	–	–	–	–	–	4,444,860
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	1,158,967	373,722	–	–	–	1,532,689
Gross loans and advances and receivables	622,577	2,700,333	1,113,429	2,933,967	7,772,135	13,509,787	197,171	28,849,399
Equity investments at fair value through other comprehensive income	–	–	–	–	–	–	6,804	6,804
Gross held-to-collect debt securities at amortised cost	–	896,703	899,327	3,145,272	1,138,068	–	–	6,079,370
Other assets	227	226,216	18,484	48,690	5,314	–	28,427	327,358
Gross foreign exchange contracts	–	522,902	102,926	387,552	–	–	–	1,013,380
Total financial assets	1,751,530	7,662,288	3,293,133	6,889,203	8,915,517	13,509,787	232,402	42,253,860
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	161,350	535,885	90,000	–	–	–	–	787,235
Customer deposits at amortised cost	10,815,799	8,018,572	10,474,590	4,601,386	7,078	–	–	33,917,425
Unsecured bank loans at amortised cost	–	370,000	–	80,000	1,092,693	–	–	1,542,693
Lease liabilities	–	5,289	10,548	41,052	68,078	7,977	–	132,944
Other liabilities	3,098	276,801	88,347	33,425	113	–	189,595	591,379
Gross foreign exchange contracts	–	512,182	102,907	387,497	–	–	–	1,002,586
Total financial liabilities	10,980,247	9,718,729	10,766,392	5,143,360	1,167,962	7,977	189,595	37,974,262
Net liquidity gap	(9,228,717)	(2,056,441)	(7,473,259)	1,745,843	7,747,555	13,501,810	42,807	4,279,598

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

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

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

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

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

Market risk management

(a) Currency risk

Currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk positions arise from foreign exchange dealings, commercial banking operations and structural foreign currency exposures. All foreign exchange positions are managed by the Group's Treasury Department within limits approved by the Board of Public Bank (Hong Kong).

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

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

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(b) Price risk

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

The Group monitors price risk principally by limits established for transactions and open positions. These limits are reviewed and approved by the respective Boards of 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, 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.

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.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management (Continued)

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)

RMDs 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 scenario arising from off-balance sheet exposures and contingent funding obligations. In baseline scenario, expected cash outflow is derived from the aforesaid exposures and obligations including potential drawdowns of unused committed facilities; trade related contingencies; issued letters of credit and financial guarantee unrelated to trade related contingencies; and uncommitted facilities and other contingent obligations with regard to not only the contractual terms in agreements with customers but also the manner of past months' utilisation and genuine drawdowns of the credit facilities; customer relationships and reputational risk perspectives. In stressed scenario, the utilisation and drawdowns of credit facilities are expected to escalate to some extent.

The funding strategies of the Group are to (i) diversify funding sources for mitigating liquidity risk exposures; (ii) minimise disruptions due to operational issues such as transfer of liquidity across group entities; (iii) ensure contingency funding is available to the Group; and (iv) maintain sufficient liquidity cushion to meet critical liquidity needs such as loan commitments and deposit withdrawals in stressed situations. The Group has established concentration limits of funding sources taking into account the respective risk profiles of Public Bank (Hong Kong) and Public Finance. For instance, intra-group funding and funding from the largest funding provider are restricted to be not more than 15% and 10% of total funding sources respectively to reduce reliance on single source of funding. Medium and long term funding is maintained at a level of at least 20% of total funding source to pursue stable funding structure.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

The Group maintains sufficient liquidity cushion comprising mainly bills, notes or bonds issued by eligible central governments in a total amount of not less than HK$2.0 billion to address critical and emergent liquidity needs on 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.

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.

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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	
	2020 (Unaudited)	2019 (Unaudited)
Liquidity Maintenance Ratio		
– Public Bank (Hong Kong) Group	**51.3%**	49.1%
– Public Bank (Hong Kong)	**50.0%**	48.1%
– Public Finance	**75.8%**	65.7%
Core Funding Ratio		
– Public Bank (Hong Kong) Group	**134.2%**	132.3%
– Public Bank (Hong Kong)	**131.2%**	129.6%

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 are subject to the supervision and approval of SAFE. In view of the limitation on transferability of liquidity, Mainland China Office has maintained high and sufficient liquidity to meet its business needs. As at 30 June 2020, the liquidity ratios in RMB and foreign currencies of Mainland China Office were more than 100%.

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 ratios against trigger limits and for risk exposures and ensuring compliance with relevant statutory limits, taking into account business growth, dividend payout and other relevant factors.

The Group's policy is to maintain a strong capital base to support the development of the Group's businesses and to meet the statutory capital adequacy 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.

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital adequacy ratios

The consolidated capital adequacy ratios of the Group are computed in accordance with the provisions of the Banking Ordinance relating to Basel III capital standards and the Capital Rules. The Group has adopted the standardised approach for the calculation of credit risk-weighted exposures and market risk-weighted exposures. The Group has adopted the basic indicator approach and the standardised approach for the calculation of operational risk-weighted exposures of Public Bank (Hong Kong) and Public Finance, respectively.

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Public Bank (Hong Kong):		
Consolidated CET1 Capital Ratio	**20.3%**	19.7%
Consolidated Tier 1 Capital Ratio	**20.3%**	19.7%
Consolidated Total Capital Ratio	**21.1%**	20.9%

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

Capital conservation buffer (CCB)

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

Countercyclical capital buffer (CCyB)

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

As at 30 June 2020, Public Bank (Hong Kong) Group has reserved a capital buffer, inclusive of CCyB ratio of 1.0%, to the private sector credit exposures in Hong Kong.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Countercyclical capital buffer (CCyB) (Continued)

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

Jurisdiction (J)	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK$'000	CCyB ratio %	CCyB amount HK$'000
As at 30 June 2020 (Unaudited)				
1. Hong Kong	**1.000**	**17,591,409**		
2. Mainland China	**–**	**1,856,532**		
Total		**19,447,941**	**0.905**	**175,914**

Jurisdiction (J)	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK$'000	CCyB ratio %	CCyB amount HK$'000
As at 31 December 2019 (Audited)				
1. Hong Kong	2.000	17,941,038		
2. Mainland China	–	1,953,985		
Total		19,895,023	1.804	358,821

Leverage ratio

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

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)
Capital management (Continued)
Leverage ratio (Continued)

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

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 (dissolved on 21 January 2020), Public Futures Limited, Public Pacific Securities Limited (dissolved on 21 January 2020), Public Financial Securities Limited, Public Financial Limited, Public Securities Limited, 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 (dissolved on 21 January 2020), Public Futures Limited, Public Pacific Securities Limited (dissolved on 21 January 2020), Public Financial Securities Limited, Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited.

Details of the 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 economy of Hong Kong was adversely affected by the outbreak of COVID-19 and entered into a recession with negative Gross Domestic Product ("GDP") of 8.9% in the first quarter of 2020 and escalation of unemployment rate to 5.9% in May 2020. The pandemic outbreak of COVID-19 also threatened the global economic outlook, causing the US Federal Reserve to cut the federal funds rate to near 0%. Market interest rates were falling with lower return on interest-bearing assets. Financial market became more volatile amidst epidemic situation coupled with volatilities of fund flows from the monetary policies adopted by nations.

Under the aforesaid challenging operating environment in the period under review, the Group conducted its loan and customer deposit businesses cautiously at reasonable interest yields and costs to minimise credit and liquidity risk. The Group also diversified revenue sources into fee-based businesses amidst weaker consumer sentiment and subdued corporate loan demands.

FINANCIAL REVIEW

Revenue and earnings

For the six months ended 30 June 2020, the Group's profit after tax decreased by HK$115.9 million or 45.1% to HK$141.1 million as compared to the corresponding period in 2019.

The Group's basic earnings per share for the six months ended 30 June 2020 was HK$0.13. The Board of Directors has declared an interim dividend of HK$0.03 per share on 30 June 2020, payable on 5 August 2020.

During the period under review, total interest income of the Group decreased by HK$109.1 million or 11.1% to HK$876.3 million contributed mainly from the decrease in interest on loans and advances and placements with banks; whilst total interest expense decreased by HK$23.0 million or 7.7% to HK$273.0 million mainly due to decrease in funding cost of customer deposits. As a result, the Group's net interest income decreased by HK$86.1 million or 12.5% to HK$603.3 million. The lower net interest income in the period under review was mainly due to the subdued loan demand and the compression of net interest margin amidst the low interest rate environment. Other operating income from stockbroking, foreign exchange earnings and other business activities of the Group increased by HK$10.0 million or 8.3% to HK$130.4 million in the period under review.

Fair value of investment properties decreased by HK$11.7 million during the period under review as compared to a revaluation gain of HK$35.3 million in the corresponding period of last year.

Operating expenses of the Group decreased by HK$12.2 million or 2.8% to HK$427.1 million mainly due to the decrease in performance-related staff costs.

Credit loss expense increased by HK$20.1 million or 20.8% to HK$116.9 million mainly due to increase in impairment allowances for consumer financing loans and advances 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$1.48 billion or 5.2% to HK$27.27 billion as at 30 June 2020 from HK$28.75 billion as at 31 December 2019. The Group's customer deposits declined slightly by HK$135.9 million or 0.4% to HK$33.78 billion as at 30 June 2020 from HK$33.92 billion as at 31 December 2019. Total assets of the Group stood at HK$44.51 billion as at 30 June 2020.

Group's branch network

As at 30 June 2020, Public Bank (Hong Kong), a subsidiary of the Company, has a branch network of 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 44 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 84 branches as at 30 June 2020 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$1.01 billion or 4.5% to HK$21.28 billion as at 30 June 2020 from HK$22.29 billion as at 31 December 2019. Customer deposits (excluding a deposit from a subsidiary) increased by HK$0.30 billion or 1.1% to HK$28.87 billion as at 30 June 2020 from HK$28.57 billion as at 31 December 2019. Impaired loans to total loans ratio of Public Bank (Hong Kong) was 0.32% as at 30 June 2020.

Public Bank (Hong Kong) will continue to develop and expand its retail and commercial banking businesses and its core customer base, and promote its banking related financial services and stockbroking businesses in order to expand its reach of existing and potential customers.

Public Finance

Total loans and advances of Public Finance decreased by HK$0.47 billion or 7.6% to HK$5.67 billion as at 30 June 2020 from HK$6.14 billion as at 31 December 2019. Customer deposits decreased by HK$0.43 billion or 7.6% to HK$5.15 billion as at 30 June 2020 from HK$5.58 billion as at 31 December 2019. Impaired loans to total loans ratio of Public Finance was 2.33% as at 30 June 2020.

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

Significant investments

The Company has a significant investment, with a value of 5% or more of the Company's total assets, in Public Bank (Hong Kong). The principal businesses of Public Bank (Hong Kong) are discussed under the "Group's branch network" of this section. The investment cost in the subsidiary amounted to HK$6.59 billion or 69.9% of total assets of the Company, and such cost reflected the fair value of the Company's investment. Public Bank (Hong Kong)'s business strategy focuses on its loan development, deposit-taking, stockbroking and bancassurance business operations; and continues to strike a balance between pursuing business growth and maintaining sound liquidity and asset quality. Public Bank (Hong Kong) and its subsidiaries recorded a profit of HK$155.4 million on consolidated basis, which represented 4.7% in regard to the annualised return of the Company's investment. Further details of such investment (including the number and percentage of shares held) in Public Bank (Hong Kong) are shown in note 1 to the interim financial statements.

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, 94.1% of the Group's operating income and 97.5% of the profit before tax were contributed by retail and commercial banking businesses. When compared to the first half of 2019, the Group's operating income from retail and commercial banking businesses decreased by HK$85.1 million or 11.0% to HK$690.6 million mainly due to decrease in net interest income. Profit before tax from retail and commercial banking businesses also decreased by HK$94.5 million or 35.3% to HK$173.5 million during the period under review. The Group's operating income from stockbroking and wealth management services increased by HK$9.2 million or 34.6% to HK$35.8 million. Profit before tax from stockbroking and wealth management services increased by HK$2.3 million or 16.5% to HK$16.2 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 as 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 2020, 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 2020.

Management Discussion and Analysis

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.

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 HKD at floating interest rates stood at approximately HK$1.56 billion as at 30 June 2020. 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 2020, which was relatively the same as compared to the position of 31 December 2019. The bank borrowings have remaining maturity periods of less than two years. In the normal course of its commercial banking business, Public Bank (Hong Kong) had entered into foreign exchange and interest rate swaps and forward contracts to reduce the foreign exchange rate risk and interest rate risk exposures of the Group. Exposures to fluctuations in foreign exchange rates and interest rates were minimal. There were also no foreign currency 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 Bank (Hong Kong) and Public Finance) stood at 20.3% and 21.1% respectively as at 30 June 2020.

Asset quality and credit management

The Group's impaired loans to total loans ratio stood at a healthy level of 0.76% as at 30 June 2020. The Group will continue to safeguard its capital adequacy position, manage risks cautiously and undertake prudent yet flexible business development strategies to strike a balance between business/income growth and prudent risk management.

The direct exposures to Europe were assessed as insignificant and manageable as the core operations of the Group are principally based in Hong Kong.

Human resources management

The Group is committed to promoting a sound corporate culture by setting out culture values including (but not limited to) caring attitude; discipline; ethics and integrity; excellence; trust; and prudence. The culture values are articulated in policies, procedures and processes that are relevant to the day-to-day or routine business/ supporting operations, training and performance appraisal of the Group's staff. Dedicated heads of key departments are responsible to assist the Board to set out the culture related behavioural expectations of staff in carrying out their day-to-day responsibilities; build up an effective, continual and regular communication channel to share examples of misconduct, improper behaviour and disciplines with the staff for their alerts; promote an open exchange of views in relation to culture and behavioural standards; and put in place a clear ownership structure for core risks and culture reform initiatives.

The objective of the Group's human resources management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives taking into account both business performance and the adherence to the Group's culture and behavioural standards, and to promote career development and progression within the Group. 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 2020, the Group's staff force stood at 1,354 employees. For the six months ended 30 June 2020, the Group's total staff related costs amounted to HK$265.7 million.

Management Discussion and Analysis

PROSPECTS

The economic outlook and operating environment of Hong Kong and Mainland China are anticipated to be more challenging in the second half of 2020. Notwithstanding that the Hong Kong Government has introduced a series of relief measures to cope with the challenges arising from COVID-19 outbreak, the pace of economic recovery in Hong Kong is anticipated to be slow with low GDP growth and high unemployment rate for a considerable period. It is anticipated that credit charge on its consumer loans for the Group would remain at a relatively high level in the second half of 2020, and the Group will continue with the provision of debt relief measures (e.g. principal moratorium or extension of due dates) to eligible borrowers to support their business operations and alleviate their financial difficulties in the tough epidemic situation. The risk appetites for corporate investments/business expansion and individuals' private consumption are expected to remain conservative in the near term with weak loan demand and loan growth momentum in Hong Kong and Mainland China.

Competition in the banking and financing industry in Hong Kong is also expected to intensify with the entrance of virtual banks, which will continue to exert pressure on the pricing of banking and financing products. The increase in compliance-related and system-related costs in meeting the regulatory and supervisory requirements are expected to impact the cost efficiency and earnings growth of banks and financial institutions in Hong Kong. Despite the foregoing, the Group will continue to pursue long-term business and profitability growth in line with its corporate mission and goals. The Group will continue to adopt prudent capital management and liquidity risk management to preserve adequate buffer to meet the challenges ahead.

The Group will continue to seek loans at reasonable yields and manage down its funding cost under the low interest rate environment. The Group will continue to adopt sound and flexible marketing strategies to expand customer base and channels of services, launch attractive marketing promotions at reasonable costs, and optimise the utilisation of system resources to enhance service quality and efficiency of banking operations. The Group will also strive for the diversification of income streams by development of fee-based businesses in stockbroking and insurance businesses.

The Group will continue to focus on expanding its retail and commercial banking business and its consumer financing business through its extensive branch network of Public Bank (Hong Kong), Public Finance and Winton Financial, supporting its growth in loan developments, deposit takings and fee-based businesses, and implementing appropriate marketing strategies at reasonable costs. The Group will continue to optimise and refine the existing products and services in the near term to grow its retail and commercial lending business and consumer financing business.

Barring unforeseen circumstances, the Group will strive to maintain its banking and financing businesses and improve its financial performance in the second half of 2020. 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 30 June 2020 declared an interim dividend of HK$0.03 (2019: HK$0.05) per share payable on 5 August 2020 to shareholders whose names appear on the register of members of the Company on 22 July 2020.

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 2019 up to 16 July 2020 (being the date of approval of the Group's Interim Report 2020) are set out below:

Changes in other directorships and major appointments

Mr. Tang Wing Chew, an Independent Non-Executive Director of the Company, was re-designated from Independent Non-Executive Director to Non-Independent Non-Executive Director of Public Bank on 29 March 2020.

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2020, 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
	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
	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

Other Information

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

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.

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

As at 30 June 2020, 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.

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

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 2020.

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 2020 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 2020 AGM of the Company held in March 2020 due to other engagement. The 2020 AGM was chaired by the Executive Director, Mr. Tan Yoke Kong, with the consent of members present. The Chairmen of the Company's Audit Committee and Nomination and Remuneration Committee, and the respective Chairmen of the Board Committees of Public Bank (Hong Kong) and Public Finance also participated in the 2020 AGM by means of tele-conferencing in Malaysia due to the outbreak of COVID-19 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 2020 Interim Report has been reviewed by the Audit Committee.

Other Information

PUBLICATION OF 2020 INTERIM REPORT

The 2020 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

16 July 2020