

PUBLIC BANK (HONG KONG) LIMITED

Interim Financial Statements
for the six months ended 30 June 2021

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PUBLIC BANK (HONG KONG) LIMITED**(Incorporated in Hong Kong with limited liability)****(Website: www.publicbank.com.hk)****INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021**

The Board of Directors (the “Board”) of Public Bank (Hong Kong) Limited (the “Bank”) is pleased to announce the unaudited condensed consolidated results of the Bank and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2021 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended	
		30 June	2020
		2021	2020
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Interest income	7	714,870	863,096
Interest expense	7	(80,229)	(249,536)
NET INTEREST INCOME		634,641	613,560
Other operating income	8	126,823	126,424
OPERATING INCOME		761,464	739,984
Operating expenses	9	(424,571)	(428,982)
Changes in fair value of investment properties		972	(3,224)
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		337,865	307,778
Credit loss expenses	10	(48,540)	(117,482)
PROFIT BEFORE TAX		289,325	190,296
Tax	11	(51,583)	(34,893)
PROFIT FOR THE PERIOD		237,742	155,403
ATTRIBUTABLE TO:			
Owners of the Bank		237,742	155,403

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	237,742	155,403
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations, net of tax	<u>10,377</u>	(20,124)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	248,119	<u>135,279</u>
ATTRIBUTABLE TO:		
Owners of the Bank	<u>248,119</u>	<u>135,279</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
	Notes		
ASSETS			
Cash and short term placements	13	5,923,734	6,224,033
Placements with banks and financial institutions maturing after one month but not more than twelve months	14	2,265,376	1,771,166
Derivative financial instruments		8,490	25,751
Loans and advances and receivables	15	25,305,473	25,727,368
Equity investments at fair value through other comprehensive income	16	6,804	6,804
Held-to-collect debt securities at amortised cost	17	6,838,797	6,735,263
Deferred tax assets		35,229	34,414
Tax recoverable		1	1,713
Intangible assets	19	718	718
Property and equipment	20	145,707	148,729
Land held under finance leases	21	169,216	171,083
Right-of-use assets		183,589	120,627
Investment properties	22	98,287	97,315
Goodwill		242,342	242,342
Other assets	18	382,793	491,465
TOTAL ASSETS		41,606,556	41,798,791
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		1,083,992	421,138
Derivative financial instruments		12,153	2,682
Customer deposits at amortised cost	23	33,337,915	34,205,129
Lease liabilities		187,394	125,985
Current tax payable		36,760	41,904
Deferred tax liabilities		22,195	21,395
Other liabilities	18	444,618	636,724
TOTAL LIABILITIES		35,125,027	35,454,957

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
	Notes		
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK			
Share capital	24	2,854,045	2,854,045
Reserves	25	3,627,484	3,489,789
TOTAL EQUITY		6,481,529	6,343,834
TOTAL EQUITY AND LIABILITIES		41,606,556	41,798,791

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		For the six months ended	
		30 June	
		2021	2020
		(Unaudited)	(Unaudited)
	Note	HK\$'000	HK\$'000
TOTAL EQUITY			
Balance at the beginning of the period		6,343,834	6,025,213
Profit for the period		237,742	155,403
Other comprehensive income in translation reserve		10,377	(20,124)
Total comprehensive income for the period		248,119	135,279
Dividends paid in respect of previous year	12(b)	(110,424)	(90,718)
Balance at the end of the period		6,481,529	6,069,774

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		For the six months ended 30 June	
		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
	Notes		
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		289,325	190,296
Adjustments for:			
Dividend income from listed investments	8	(129)	(79)
Dividend income from unlisted investments	8	(35)	(35)
Depreciation of property and equipment and land held under finance leases	9	17,306	17,370
(Increase)/decrease in fair value of investment properties		(972)	3,224
Decrease in credit loss expenses for loans and advances and receivables		(1,520)	(13,926)
Net losses on disposal of property and equipment		7	15
Increase in credit loss expenses for held-to-collect debt securities at amortised cost and bank placements		31	90
Depreciation of right-of-use assets		46,566	48,975
Others interest expenses	7	1,531	1,859
Gain on termination of leases		(1,052)	(676)
Payment of dismantling costs		(92)	(183)
Exchange differences		9,844	(19,565)
Profits tax paid		(54,494)	(77,225)
Operating profit before changes in operating assets and liabilities		306,316	150,140
Decrease in operating assets:			
Increase in placements with banks and financial institutions		(267,426)	(241,288)
Decrease in derivative financial instruments		17,261	10,240
Decrease in loans and advances and receivables		423,415	1,483,473
Increase in held-to-collect debt securities at amortised cost		(233,525)	(398,033)
Decrease in other assets		108,672	11,140
		48,397	865,532
Decrease in operating liabilities:			
Increase/(decrease) in deposits and balances of banks and other financial institutions at amortised cost		662,854	(373,078)
Decrease in customer deposits at amortised cost		(867,214)	(139,583)
Increase in derivative financial instruments		9,471	1,829
Decrease in other liabilities		(193,005)	(122,787)
		(387,894)	(633,619)
Net cash (outflow)/inflow from operating activities		(33,181)	382,053

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		For the six months ended 30 June	
		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
	Notes		
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	20	(12,429)	(31,913)
Sales proceeds from disposal of property and equipment		5	113
Dividends received from listed investments		129	79
Dividends received from unlisted investments		35	35
Net cash outflow from investing activities		(12,260)	(31,686)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on shares		(110,424)	(90,718)
Repayment of lease liabilities		(47,610)	(49,453)
Net cash outflow from financing activities		(158,034)	(140,171)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(203,475)	210,196
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		6,173,647	5,027,530
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		5,970,172	5,237,726
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand		1,336,899	1,113,078
Money at call and short notice with an original maturity within three months		4,563,379	3,142,206
Placements with banks and financial institutions with an original maturity within three months		69,894	749,380
Held-to-collect debt securities at amortised cost with an original maturity within three months		-	233,062
		5,970,172	5,237,726
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		(103,859)	(325,342)
Interest received		718,867	888,772

NOTES TO INTERIM FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

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

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

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

Name	Issued ordinary share capital HK\$	Percentage of equity attributable to the Bank		Principal activities
		Direct %	Indirect %	
Public Financial Securities Limited	48,000,000	100	-	Securities brokerage
Public Bank (Nominees) Limited	100,000	100	-	Provision of nominee services
Public Futures Limited	2	100	-	Dormant
Public Finance Limited	671,038,000	100	-	Deposit-taking and financing
Public Financial Limited	10,100,000	-	100	Investment holding
Public Securities Limited	10,000,000	-	100	Securities brokerage
Public Securities (Nominees) Limited	10,000	-	100	Provision of nominee services

NOTES TO INTERIM FINANCIAL STATEMENTS

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in compliance with the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (“HKMA”) and in accordance with the same accounting policies adopted in the Group’s 2020 Annual Report, except for the changes in accounting policies as set out in note 5 below.

The interim financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group’s 2020 Annual Report.

The financial information relating to the year ended 31 December 2020 that is included in the 2021 interim financial statements as comparative information does not constitute the Bank’s statutory annual consolidated audited financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the statutory financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Bank’s external auditors have reported on those financial statements. The Independent Auditor’s Report was unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

3. BASIS OF CONSOLIDATION

The interim condensed consolidated financial statements include the interim financial statements of the Bank and its subsidiaries for the period ended 30 June 2021.

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

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

NOTES TO INTERIM FINANCIAL STATEMENTS

3. BASIS OF CONSOLIDATION (Continued)

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

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

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

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

The subsidiaries consolidated for accounting purpose are as follows:

Name	30 June 2021		31 December 2020		Principal activities
	Total assets (Unaudited) HK\$	Total equity (Unaudited) HK\$	Total assets (Audited) HK\$	Total equity (Audited) HK\$	
Public Financial Securities Limited	57,968,545	48,472,576	53,100,910	48,442,853	Securities brokerage
Public Bank (Nominees) Limited	100,000	100,000	100,000	100,000	Provision of nominee services
Public Futures Limited	1	1	1	1	Dormant
Public Finance Limited *	6,209,557,075	1,394,730,119	6,667,330,189	1,380,562,533	Deposit-taking and financing
Public Financial Limited	10,101,371	10,101,371	10,101,371	10,101,371	Investment holding
Public Securities Limited	352,332,122	230,832,537	341,004,962	217,089,704	Securities brokerage
Public Securities (Nominees) Limited	1,113,418	1,111,918	1,122,001	1,119,001	Provision of nominee services

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

NOTES TO INTERIM FINANCIAL STATEMENTS

4. BASIS OF CAPITAL DISCLOSURES

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

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

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

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

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

The Group has adopted the provisions of the Banking Ordinance relating to the Basel III capital standards and the Banking (Capital) Rules (the “Capital Rules”). The Capital Rules outline the general requirements on regulatory capital ratios, the components of eligible regulatory capital as well as the levels of those ratios at which banking institutions are required to operate. The Capital Rules have been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision. Under the Capital Rules, the required CCB ratio for 2020 and 2021 is 2.5%, whilst the required CCyB ratio for 2020 and 2021 is 1.0%.

NOTES TO INTERIM FINANCIAL STATEMENTS

5. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The Hong Kong Institute of Certified Public Accountants has issued a number of revised Hong Kong Financial Reporting Standards (“HKFRSs”), which are generally effective for accounting periods beginning on or after 1 January 2021. The Group has adopted the following revised standards for the first time for the interim financial statements:

- Amendments to HKFRS 9, HKAS 39, *Interest Rate Benchmark Reform – Phase 2*
HKFRS 7, HKFRS 4 and HKFRS 16

The nature and impact of the amendments are described below.

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (“IBOR”) is replaced with an alternative nearly risk-free interest rate (“RFR”).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
- Provide temporary reliefs to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments have no impact on the interim financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

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 HKAS 1 and *Disclosure of Accounting Policies*¹
HKFRS Practice Statement 2
- Amendments to HKAS 8 *Definition of Accounting Estimates*¹

¹ Effective for annual periods beginning on or after 1 January 2023

NOTES TO INTERIM FINANCIAL STATEMENTS

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

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

Amendments to HKAS 1 (Revised) *Presentation of Financial Statements* and HKFRS Practice Statement 2 *Making Materiality Judgements* replace the requirement of entities to disclose their significant accounting policies with a requirement to disclose their material accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make based on those financial statements. The amendments to HKFRS Practice Statement 2 provide guidance on applying materiality judgements on accounting policy disclosures. In assessing the materiality of accounting policy information, entities are required to consider both the size of the transactions, other events or conditions and the nature of them. The amendments are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provide a new definition for accounting estimates. The new definition states that accounting estimates are monetary amounts that are subject to material uncertainty. The amendments clarify the distinction among changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO INTERIM FINANCIAL STATEMENTS

6. SEGMENT INFORMATION

Operating segment information

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

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

NOTES TO INTERIM FINANCIAL STATEMENTS

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

The following table discloses the revenue and profit information for operating segments for the six months ended 30 June 2021 and 30 June 2020.

	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	
	2021	2020	2021	2020	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue								
External:								
Net interest income/(expense)	634,730	613,894	(89)	(334)	-	-	634,641	613,560
Other operating income/(expense):								
Net fees and commission income	60,502	62,090	43,460	35,967	-	-	103,962	98,057
Others	19,073	24,378	(4)	195	3,792	3,794	22,861	28,367
Operating income	714,305	700,362	43,367	35,828	3,792	3,794	761,464	739,984
Operating profit/(loss) after credit loss expenses before tax	263,277	176,008	23,820	16,237	2,228	(1,949)	289,325	190,296
Tax							(51,583)	(34,893)
Profit for the period							237,742	155,403
Other segment information								
Depreciation of property and equipment and land held under finance leases	(17,306)	(17,370)	-	-	-	-	(17,306)	(17,370)
Depreciation of right-of-use assets	(46,566)	(48,975)	-	-	-	-	(46,566)	(48,975)
Changes in fair value of investment properties	-	-	-	-	972	(3,224)	972	(3,224)
Credit loss expenses	(48,540)	(117,482)	-	-	-	-	(48,540)	(117,482)
Net losses on disposal of property and equipment	(7)	(15)	-	-	-	-	(7)	(15)

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 2021 and 31 December 2020.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Segment assets other than intangible assets and goodwill	40,785,675	41,001,204	444,304	421,085	98,287	97,315	41,328,266	41,519,604
Intangible assets	-	-	718	718	-	-	718	718
Goodwill	242,342	242,342	-	-	-	-	242,342	242,342
Segment assets	41,028,017	41,243,546	445,022	421,803	98,287	97,315	41,571,326	41,762,664
Unallocated assets: Deferred tax assets and tax recoverable							35,230	36,127
Total assets							41,606,556	41,798,791
Segment liabilities	34,903,368	35,235,867	159,224	152,484	3,480	3,307	35,066,072	35,391,658
Unallocated liabilities: Deferred tax liabilities and tax payable							58,955	63,299
Total liabilities							35,125,027	35,454,957
Other segment information								
Additions to non-current assets – capital expenditure	12,429	55,936	-	-	-	-	12,429	55,936

NOTES TO INTERIM FINANCIAL STATEMENTS

6. SEGMENT INFORMATION (Continued)

Geographical information

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

The following table discloses the segment revenue information for geographical segments for the six months ended 30 June 2021 and 30 June 2020.

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Segment revenue from external customers:		
Hong Kong	705,325	677,598
Mainland China	56,139	62,386
	761,464	739,984

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

The following table discloses the non-current assets information for geographical segments as at 30 June 2021 and 31 December 2020.

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Non-current assets:		
Hong Kong	809,696	756,914
Mainland China	30,163	23,900
	839,859	780,814

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% (2020: 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	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income from:		
Loans and advances and receivables	667,169	766,265
Short term placements and placements with banks	24,125	38,096
Held-to-collect debt securities at amortised cost	23,576	58,735
	714,870	863,096
Interest expense on:		
Deposits from banks and financial institutions	617	3,929
Deposits from customers	77,913	243,306
Bank loans	168	442
Others	1,531	1,859
	80,229	249,536

Interest income and interest expense for the six months ended 30 June 2021, 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\$714,870,000 and HK\$80,229,000 (2020: HK\$863,096,000 and HK\$249,536,000) respectively.

NOTES TO INTERIM FINANCIAL STATEMENTS

8. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Fees and commission income:		
Retail and commercial banking	61,763	63,151
Wealth management services, stockbroking and securities management	43,460	35,967
	105,223	99,118
Less: Fees and commission expenses	(1,261)	(1,061)
Net fees and commission income	103,962	98,057
Gross rental income	3,812	3,814
Less: Direct operating expenses	(20)	(20)
Net rental income	3,792	3,794
Gains less losses arising from dealing in foreign currencies	20,097	13,159
Net losses on derivative financial instruments	(3,663)	(1,275)
	16,434	11,884
Net losses on disposal of property and equipment	(7)	(15)
Gain on termination of leases	1,052	676
Dividend income from listed investments	129	79
Dividend income from unlisted investments	35	35
Government subsidies	977	11,235
Others	449	679
	126,823	126,424

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

For the six months ended 30 June 2021, the government subsidy was granted from the Financial Industry Recruitment Scheme for Tomorrow which aims to create full-time jobs in the financial services sector under the Anti-epidemic Fund of the Hong Kong Government.

For the six months ended 30 June 2020, the government subsidies were granted from Employment Support Scheme and Subsidy Scheme for the Securities Industry which aim to retain employment under the same fund.

NOTES TO INTERIM FINANCIAL STATEMENTS

8. OTHER OPERATING INCOME (Continued)

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 financial liabilities measured at amortised cost and financial assets and financial liabilities designated at FVPL for the six months ended 30 June 2021 and 30 June 2020.

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

9. OPERATING EXPENSES

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Staff costs:		
Salaries and other staff costs	252,302	244,107
Pension contributions	11,760	13,172
Less: Forfeited contributions	(24)	(50)
Net contribution to retirement benefit schemes	11,736	13,122
	264,038	257,229
Other operating expenses:		
Depreciation of right-of-use assets	46,566	48,975
Depreciation of property and equipment and land held under finance leases	17,306	17,370
Administrative and general expenses	33,602	40,353
Others	63,059	65,055
Operating expenses before changes in fair value of investment properties	424,571	428,982

As at 30 June 2021 and 30 June 2020, 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 2021 and 30 June 2020 arose in respect of staff who left the schemes during the periods.

NOTES TO INTERIM FINANCIAL STATEMENTS

10. CREDIT LOSS EXPENSES

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

For the six months ended 30 June 2021				
(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	115	6,085	42,062	48,262
- trade bills, accrued interest and other receivables	3	48	186	237
- cash and short term placements	(30)	-	-	(30)
- placements with banks and financial institutions	50	-	-	50
- held-to-collect debt securities at amortised cost	11	-	-	11
- loan commitments	10	-	-	10
	159	6,133	42,248	48,540

NOTES TO INTERIM FINANCIAL STATEMENTS

10. CREDIT LOSS EXPENSES (Continued)

	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	(12,024)	(6,150)	135,887	117,713
- trade bills, accrued interest and other receivables	(384)	(14)	80	(318)
- cash and short term placements	(12)	-	-	(12)
- placements with banks and financial institutions	64	-	-	64
- held-to-collect debt securities at amortised cost	38	-	-	38
- loan commitments	(3)	-	-	(3)
	(12,321)	(6,164)	135,967	117,482

NOTES TO INTERIM FINANCIAL STATEMENTS

11. TAX

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax charge:		
Hong Kong	41,810	19,476
Overseas	9,494	11,465
Deferred tax charge, net	279	3,952
	51,583	34,893

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

	For the six months ended 30 June 2021 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	250,442		38,883		289,325	
Tax at the applicable tax rate	41,323	16.5	9,721	25.0	51,044	17.6
Estimated tax effect of net expenses that are not deductible	318	0.1	221	0.6	539	0.2
Tax charge at the Group's effective rate	41,641	16.6	9,942	25.6	51,583	17.8

NOTES TO INTERIM FINANCIAL STATEMENTS

11. TAX (Continued)

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

12. DIVIDENDS

(a) Dividends attributable to the interim period

	For the six months ended 30 June			
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$ per	HK\$ per	HK\$'000	HK\$'000
	ordinary share	ordinary share		
Interim dividend	<u>6.768</u>	4.453	<u>100,275</u>	65,976

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

NOTES TO INTERIM FINANCIAL STATEMENTS

12. DIVIDENDS (Continued)

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

	For the six months ended 30 June			
	2021 (Unaudited) HK\$ per ordinary share	2020 (Unaudited) HK\$ per ordinary share	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Final dividend in respect of the previous year	7.453	6.123	110,424	90,718

13. CASH AND SHORT TERM PLACEMENTS

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Cash on hand	170,340	173,492
Placements with banks and financial institutions	1,166,559	1,044,990
Money at call and short notice	4,587,410	5,006,156
Gross cash and short term placements	5,924,309	6,224,638
Less: Impairment allowances collectively assessed		
As at 1 January 2021 and 2020	(605)	(419)
Credit loss expenses released/(charged) to the consolidated income statement during the period/year	30	(186)
	(575)	(605)
Cash and short term placements	5,923,734	6,224,033

Over 90% (31 December 2020: over 90%) of the placements were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's Investors Service ("Moody's"), an external credit agency.

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

NOTES TO INTERIM FINANCIAL STATEMENTS

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

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Gross placements with banks and financial institutions	2,265,603	1,771,343
Less: Impairment allowances collectively assessed		
As at 1 January 2021 and 2020	(177)	(153)
Credit loss expenses charged to the consolidated income statement during the period/year	(50)	(24)
	(227)	(177)
Placements with banks and financial institutions	2,265,376	1,771,166

Over 90% (31 December 2020: over 90%) of the placements maturing after one month but not more than twelve months were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's.

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

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Loans and advances to customers	25,386,507	25,815,957
Trade bills	27,530	20,981
Loans and advances, and trade bills	25,414,037	25,836,938
Accrued interest	66,476	68,251
Other receivables	25,480,513 3,159	25,905,189 1,898
Gross loans and advances and receivables	25,483,672	25,907,087
Less: Impairment allowances *		
- specifically assessed	(52,093)	(59,874)
- collectively assessed	(126,106)	(119,845)
	(178,199)	(179,719)
Loans and advances and receivables	25,305,473	25,727,368

Over 90% (31 December 2020: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (31 December 2020: 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\$28,000 and HK\$18,000 on off-balance sheet credit exposures as at 30 June 2021 and 31 December 2020 respectively.

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

Loans and advances and receivables are summarised as follows:

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Neither past due nor impaired loans and advances and receivables	24,802,255	25,146,434
Past due but not impaired loans and advances and receivables	457,376	540,839
Credit impaired loans and advances	212,375	210,905
Credit impaired receivables	11,666	8,909
Gross loans and advances and receivables	25,483,672	25,907,087

About 70% (31 December 2020: about 69%) of “Neither past due nor impaired loans and advances and receivables” were property mortgage loans and hire purchase loans secured by properties, taxi licences, public light bus licences and vehicles.

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2021 (Unaudited)		31 December 2020 (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	38,205	0.15	62,761	0.24
One year or less but over six months	47,683	0.19	41,003	0.16
Over one year	86,113	0.34	49,297	0.19
Loans and advances overdue for more than three months	172,001	0.68	153,061	0.59
Rescheduled loans and advances overdue for three months or less	35,948	0.14	53,761	0.21
Impaired loans and advances overdue for three months or less	4,426	0.02	4,083	0.02
Total overdue and impaired loans and advances	212,375	0.84	210,905	0.82

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	383	525
One year or less but over six months	2,434	2,017
Over one year	8,804	6,338
Trade bills, accrued interest and other receivables overdue for more than three months	11,621	8,880
Impaired trade bills, accrued interest and other receivables overdue for three months or less	45	29
Total overdue and impaired trade bills, accrued interest and other receivables	11,666	8,909

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

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

30 June 2021 (Unaudited)			31 December 2020 (Audited)		
Mainland			Mainland		
Hong Kong	China	Total	Hong Kong	China	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

(i) Analysis of overdue loans and advances and receivables

Loans and advances and receivables overdue for more than three months	73,103	110,519	183,622	88,229	73,712	161,941
Impairment allowances specifically assessed	29,008	8,838	37,846	33,660	7,995	41,655
Current market value and fair value of collateral			238,044			194,175

(ii) Analysis of impaired loans and advances and receivables

Impaired loans and advances and receivables	113,522	110,519	224,041	146,102	73,712	219,814
Impairment allowances specifically assessed	43,255	8,838	52,093	51,879	7,995	59,874
Current market value and fair value of collateral			249,580			201,861

Over 90% (31 December 2020: over 90%) of the Group's gross loans and advances and receivables were derived from operations carried out in Hong Kong. Accordingly, no geographical segment information of gross loans and advances and receivables is presented herein.

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	238,044	194,175
Covered portion of overdue loans and advances	137,279	111,175
Uncovered portion of overdue loans and advances	34,722	41,886

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) **Reposessed assets**

As at 30 June 2021, the total value of reposessed assets of the Group amounted to HK\$30,640,000 (31 December 2020: HK\$19,890,000).

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2021 (Unaudited)		31 December 2020 (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	454,599	1.79	537,717	2.08
Trade bills, accrued interest and other receivables overdue for three months or less	2,777		3,122	

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

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

	30 June 2021 (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 2021	25,419,405	267,868	219,814	25,907,087
New loans/financing originated	3,948,430	827	2,358	3,951,615
Loans/financing derecognised or repaid during the period (other than write-offs)	(4,217,238)	(26,633)	(25,466)	(4,269,337)
Transfer to 12-month expected credit loss (Stage 1)	112,408	(84,366)	(28,042)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(129,341)	129,543	(202)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(86,669)	(74,603)	161,272	-
Total transfer between stages	(103,602)	(29,426)	133,028	-
Write-offs	-	-	(105,693)	(105,693)
As at 30 June 2021	25,046,995	212,636	224,041	25,483,672
Arising from:				
Loans and advances	24,963,127	211,005	212,375	25,386,507
Trade bills, accrued interest and other receivables	83,868	1,631	11,666	97,165
	25,046,995	212,636	224,041	25,483,672

The amount outstanding on financial assets that were written off during the period and are still subject to enforcement action amounted to HK\$84,895,000.

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2020 (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 2020	28,061,587	249,427	193,933	28,504,947
New loans/financing originated	7,392,935	122	4,807	7,397,864
Loans/financing derecognised or repaid during the year (other than write-offs)	(9,578,405)	(66,262)	(24,074)	(9,668,741)
Transfer to 12-month expected credit loss (Stage 1)	100,724	(78,156)	(22,568)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(214,904)	220,558	(5,654)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(342,532)	(57,821)	400,353	-
Total transfer between stages	(456,712)	84,581	372,131	-
Write-offs	-	-	(326,983)	(326,983)
As at 31 December 2020	25,419,405	267,868	219,814	25,907,087
Arising from:				
Loans and advances	25,339,293	265,759	210,905	25,815,957
Trade bills, accrued interest and other receivables	80,112	2,109	8,909	91,130
	25,419,405	267,868	219,814	25,907,087

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK\$270,681,000.

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

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

30 June 2021				
(Unaudited)				
	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Internal rating grades:				
Performing				
Pass	24,870,448	-	-	24,870,448
Special mention	176,547	212,636	-	389,183
Non-performing				
Substandard	-	-	73,359	73,359
Doubtful	-	-	135,173	135,173
Loss	-	-	15,509	15,509
Total	25,046,995	212,636	224,041	25,483,672

31 December 2020				
(Audited)				
	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Internal rating grades:				
Performing				
Pass	25,165,589	-	-	25,165,589
Special mention	253,816	267,868	-	521,684
Non-performing				
Substandard	-	-	147,608	147,608
Doubtful	-	-	56,269	56,269
Loss	-	-	15,937	15,937
Total	25,419,405	267,868	219,814	25,907,087

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

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

	30 June 2021 (Unaudited)			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
As at 1 January 2021	95,768	24,077	59,874	179,719
New loans/financing originated	36,996	-	179	37,175
Loans/financing derecognised or repaid during the period (other than write-offs)	(37,723)	(3,072)	(59,551)	(100,346)
Transfer to 12-month expected credit loss (Stage 1)	5,411	(1,298)	(4,113)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(1,923)	1,969	(46)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(2,619)	(15,784)	18,403	-
Total transfer between stages	869	(15,113)	14,244	-
Impact on period end expected credit loss of exposures transferred between stages during the period	(2,296)	24,235	71,650	93,589
Movements due to changes in credit risk	2,282	83	15,726	18,091
Recoveries	-	-	55,664	55,664
Write-offs	-	-	(105,693)	(105,693)
As at 30 June 2021	95,896	30,210	52,093	178,199
Arising from:				
Loans and advances	94,650	30,149	50,854	175,653
Trade bills, accrued interest and other receivables	1,218	61	1,239	2,518
Loan commitments	26	-	-	26
Financial guarantees and letters of credit	2	-	-	2
	95,896	30,210	52,093	178,199

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2020 (Audited)			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
As at 1 January 2020	109,719	37,946	69,002	216,667
New loans/financing originated	58,510	-	264	58,774
Loans/financing derecognised or repaid during the year (other than write-offs)	(66,108)	(8,761)	(110,016)	(184,885)
Transfer to 12-month expected credit loss (Stage 1)	4,563	(821)	(3,742)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(3,802)	4,134	(332)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(10,825)	(27,638)	38,463	-
Total transfer between stages	(10,064)	(24,325)	34,389	-
Impact on year end expected credit loss of exposures transferred between stages during the year	(1,854)	19,219	254,846	272,211
Movements due to changes in credit risk	5,565	(2)	34,430	39,993
Recoveries	-	-	103,942	103,942
Write-offs	-	-	(326,983)	(326,983)
As at 31 December 2020	95,768	24,077	59,874	179,719
Arising from:				
Loans and advances	94,535	24,064	58,821	177,420
Trade bills, accrued interest and other receivables	1,215	13	1,053	2,281
Loan commitments	16	-	-	16
Financial guarantees and letters of credit	2	-	-	2
	95,768	24,077	59,874	179,719

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(g) Finance lease receivables

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)	30 June 2021 (Unaudited)	31 December 2020 (Audited)
	Minimum lease payments HK\$'000	HK\$'000	Present value of minimum lease payments HK\$'000	HK\$'000
Amounts receivable under finance leases:				
Within one year	384,847	370,053	250,242	237,644
In the second to fifth years, inclusive	1,079,431	1,046,511	655,632	627,982
Over five years	5,140,447	5,190,583	3,943,862	3,952,305
	6,604,725	6,607,147	4,849,736	4,817,931
Less: Unearned finance income	(1,754,989)	(1,789,216)		
Present value of minimum lease payment receivables	4,849,736	4,817,931		

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

16. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Unlisted equity investments in corporate entity, at fair value:		
At the beginning and the end of the period/year	6,804	6,804

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

NOTES TO INTERIM FINANCIAL STATEMENTS

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

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Certificates of deposit held	3,594,084	3,536,714
Treasury bills and government bonds (including Exchange Fund Bills)	2,280,253	2,047,479
Other debt securities	965,145	1,151,744
Gross held-to-collect debt securities at amortised cost	6,839,482	6,735,937
Less: Impairment allowances collectively assessed		
As at 1 January 2021 and 2020	(674)	(610)
Credit loss expenses charged to the consolidated income statement during the period/year	(11)	(64)
	(685)	(674)
	6,838,797	6,735,263
Listed or unlisted:		
- Listed in Hong Kong	497,719	566,036
- Listed outside Hong Kong	34,961	35,855
- Unlisted	6,306,802	6,134,046
	6,839,482	6,735,937
Analysed by types of issuers:		
- Central governments	2,280,253	2,047,479
- Public sector entities	400,000	499,991
- Banks and other financial institutions	4,159,229	4,188,467
	6,839,482	6,735,937

There were no impairment allowances specifically assessed made against held-to-collect debt securities at amortised cost as at 30 June 2021 and 31 December 2020.

There were neither impaired nor overdue held-to-collect debt securities at amortised cost as at 30 June 2021 and 31 December 2020.

All exposures attributed to the held-to-collect debt securities at amortised cost were rated with a grading of Baa1 or above based on the credit rating of Moody's as at 30 June 2021 and 31 December 2020.

NOTES TO INTERIM FINANCIAL STATEMENTS

18. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Interest receivables from financial institutions	13,038	15,260
Other debtors, deposits and prepayments	364,240	447,490
Net amount of accounts receivables from Hong Kong Securities Clearing Company Limited ("HKSCC")	5,515	28,715
	382,793	491,465

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

Other liabilities

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Interest payable	26,663	50,293
Creditors, accruals and other payables	332,128	485,586
Net amount of accounts payable to HKSCC	85,827	100,845
	444,618	636,724

NOTES TO INTERIM FINANCIAL STATEMENTS

19. INTANGIBLE ASSETS

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Cost:		
At the beginning and the end of the period/year	<u>1,923</u>	1,923
Accumulated impairment:		
At the beginning and the end of the period/year	<u>1,205</u>	1,205
Net carrying amount:		
At the beginning and the end of the period/year	<u>718</u>	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 2020: five units) of Stock Exchange Trading Right and one unit (31 December 2020: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

NOTES TO INTERIM FINANCIAL STATEMENTS

20. PROPERTY AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvement, furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
Cost:			
As at 1 January 2020	22,265	343,710	365,975
Additions	-	55,936	55,936
Disposals/write-off	-	(5,400)	(5,400)
As at 31 December 2020 and 1 January 2021 (Audited)	22,265	394,246	416,511
Additions	-	12,429	12,429
Disposals/write-off	-	(3,704)	(3,704)
As at 30 June 2021 (Unaudited)	22,265	402,971	425,236
Accumulated depreciation:			
As at 1 January 2020	8,143	233,484	241,627
Provided during the year	480	30,939	31,419
Disposals/write-off	-	(5,264)	(5,264)
As at 31 December 2020 and 1 January 2021 (Audited)	8,623	259,159	267,782
Provided during the period	240	15,199	15,439
Disposals/write-off	-	(3,692)	(3,692)
As at 30 June 2021 (Unaudited)	8,863	270,666	279,529
Net carrying amount:			
As at 30 June 2021 (Unaudited)	13,402	132,305	145,707
As at 31 December 2020 (Audited)	13,642	135,087	148,729

There were no impairment allowances made against the above items of property and equipment as at 30 June 2021 and 31 December 2020. There were no movements in impairment allowances for the period ended 30 June 2021 and for the year ended 31 December 2020.

NOTES TO INTERIM FINANCIAL STATEMENTS

21. LAND HELD UNDER FINANCE LEASES

	HK\$'000
Cost:	
As at 1 January 2020, 31 December 2020 and 1 January 2021 (Audited)	<u>231,594</u>
As at 30 June 2021 (Unaudited)	<u>231,594</u>
Accumulated depreciation and impairment:	
As at 1 January 2020 (Audited)	56,776
Depreciation provided during the year	<u>3,735</u>
As at 31 December 2020 and 1 January 2021 (Audited)	60,511
Depreciation provided during the period	<u>1,867</u>
As at 30 June 2021 (Unaudited)	<u>62,378</u>
Net carrying amount:	
As at 30 June 2021 (Unaudited)	<u>169,216</u>
As at 31 December 2020 (Audited)	<u>171,083</u>

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

NOTES TO INTERIM FINANCIAL STATEMENTS

22. INVESTMENT PROPERTIES

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Carrying amount at the beginning of the period/year	97,315	107,475
Changes in fair value recognised in the consolidated income statement	972	(10,160)
Carrying amount at the end of the period/year	98,287	97,315

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 2020: 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 2021, investment properties were revalued according to the valuation assessed by C S Surveyors Limited, a firm of independent professionally qualified valuers. Finance and Control Department has discussions with the valuer on the valuation methodology and valuation results at least twice a year when the valuation is performed for interim and annual financial reporting.

NOTES TO INTERIM FINANCIAL STATEMENTS

22. INVESTMENT PROPERTIES (Continued)

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

	30 June 2021 (Unaudited)		31 December 2020 (Audited)	
	Range	Weighted average	Range	Weighted average
	HK\$	HK\$	HK\$	HK\$
Price per square metre	79,000 to 513,000	232,000	78,000 to 508,000	229,000

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

The investment properties held by the Group are let under operating leases from which the Group earns rental income. Details of future annual rental receivables under operating leases are included in note 27(a) to the interim financial statements.

23. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Demand deposits and current accounts	4,890,255	4,533,183
Savings deposits	7,930,314	7,617,851
Time, call and notice deposits	20,517,346	22,054,095
	33,337,915	34,205,129

24. SHARE CAPITAL

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Issued and fully paid:		
14,816,000 (2020: 14,816,000) ordinary shares	2,854,045	2,854,045

NOTES TO INTERIM FINANCIAL STATEMENTS

25. RESERVES

	Group reconstruction reserve HK\$'000	Capital reserve HK\$'000	Regulatory reserve [#] HK\$'000	Retained profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
As at 1 January 2020	3,065	17,660	207,735	2,945,115	(2,407)	3,171,168
Profit for the year	-	-	-	419,869	-	419,869
Other comprehensive income	-	-	-	-	55,446	55,446
Transfer from regulatory reserve to retained profits	-	-	(154,455)	154,455	-	-
Dividends paid in respect of previous year	-	-	-	(90,718)	-	(90,718)
Dividends paid in respect of current year	-	-	-	(65,976)	-	(65,976)
As at 31 December 2020 and 1 January 2021 (Audited)	3,065	17,660	53,280	3,362,745	53,039	3,489,789
Profit for the period	-	-	-	237,742	-	237,742
Other comprehensive income	-	-	-	-	10,377	10,377
Transfer from regulatory reserve to retained profits	-	-	(9,083)	9,083	-	-
Dividends paid in respect of previous year	-	-	-	(110,424)	-	(110,424)
As at 30 June 2021 (Unaudited)	3,065	17,660	44,197	3,499,146	63,416	3,627,484

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

NOTES TO INTERIM FINANCIAL STATEMENTS

26. OFF-BALANCE SHEET EXPOSURE

(a) Contingent liabilities, commitments and derivatives

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

	30 June 2021 (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	22,602	22,602	19,595	-	-
Transaction-related contingencies	6,084	3,042	244	-	-
Trade-related contingencies	13,853	2,771	2,553	-	-
Forward forward deposits placed	-	-	-	-	-
Forward asset purchases	-	-	-	-	-
	42,539	28,415	22,392	-	-
Derivatives held for trading:					
Foreign exchange rate contracts	1,913,769	38,679	7,735	8,490	12,153
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	82,400	41,200	41,200	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,274,088	-	-	-	-
	4,312,796	108,294	71,327	8,490	12,153
30 June 2021 (Unaudited) Contractual amount HK\$'000					
Capital commitments contracted for, but not provided in the consolidated statement of financial position					7,470

NOTES TO INTERIM FINANCIAL STATEMENTS

26. OFF-BALANCE SHEET EXPOSURE (Continued)

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

31 December 2020 (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	22,727	22,727	18,792	-	-
Transaction-related contingencies	6,899	3,449	831	-	-
Trade-related contingencies	21,976	4,396	3,032	-	-
Forward forward deposits placed	-	-	-	-	-
Forward asset purchases	-	-	-	-	-
	51,602	30,572	22,655	-	-
Derivatives held for trading:					
Foreign exchange rate contracts	995,089	35,697	7,140	25,751	2,682
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	16,393	8,197	8,197	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,439,894	-	-	-	-
	3,502,978	74,466	37,992	25,751	2,682

31 December 2020

(Audited)

Contractual

amount

HK\$'000

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

13,144

The corresponding ECLs for the outstanding off-balance sheet exposures are included in the analysis of changes in ECL allowances as disclosed in note 15(f) to the interim financial statements.

NOTES TO INTERIM FINANCIAL STATEMENTS

26. OFF-BALANCE SHEET EXPOSURE (Continued)

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

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

As at 30 June 2021 and 31 December 2020, 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 established in an organised financial market 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. 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 the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

NOTES TO INTERIM FINANCIAL STATEMENTS

27. LEASE

(a) As lessor

The Group leases its investment properties as disclosed in note 22 to the interim financial statements under operating lease arrangements, and the terms of the leases range from 1 to 4 years.

As at 30 June 2021 and 31 December 2020, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Within one year	2,893	1,895
In the second to fifth years, inclusive	2,433	1,182
	5,326	3,077

(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 2021 and 31 December 2020, the Group had total future lease payments for leases committed but not yet commenced falling due as follows:

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Within one year	4,649	4,282
In the second to fifth years, inclusive	14,533	11,122
Over five years	-	30
	19,182	15,434

NOTES TO INTERIM FINANCIAL STATEMENTS

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Liquid or/and very short term and variable rate financial instruments include loans and advances and receivables, held-to-collect debt securities at amortised cost, customer deposits, certificates of deposit issued and unsecured bank loans. As these financial instruments are liquid or having a short-term maturity or carrying interest at a 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 determined based on prevailing money-market interest rates or current interest rates offered for similar financial instruments appropriate for the remaining term to maturity. The carrying amounts of such financial instruments are not materially different from their fair values.

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

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

	30 June 2021 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets:				
Derivative financial instruments	-	8,490	-	8,490
Equity investments at fair value through other comprehensive income	-	-	6,804	6,804
	-	8,490	6,804	15,294
Financial liabilities:				
Derivative financial instruments	-	12,153	-	12,153

NOTES TO INTERIM FINANCIAL STATEMENTS

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	31 December 2020 (Audited)			Total HK\$'000
	Level 1	Level 2	Level 3	
	HK\$'000	HK\$'000	HK\$'000	
Financial assets:				
Derivative financial instruments	-	25,751	-	25,751
Equity investments at fair value through other comprehensive income	-	-	6,804	6,804
	-	25,751	6,804	32,555
Financial liabilities:				
Derivative financial instruments	-	2,682	-	2,682

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 2021 and 31 December 2020, the effects of discounting were considered insignificant for the Level 2 financial instruments.

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

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

For the period ended 30 June 2021 and the year ended 31 December 2020, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the period ended 30 June 2021 and the year ended 31 December 2020, 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 2021 and the year ended 31 December 2020.

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

NOTES TO INTERIM FINANCIAL STATEMENTS

29. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	30 June 2021 (Unaudited)							
			Over 1 month but not more than 3 months	Over 3 months but not more than 12 months	Over 1 year but not more than 5 years		Repayable within an indefinite period	Total
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	HK\$'000	HK\$'000	HK\$'000	Over 5 years HK\$'000	HK\$'000	HK\$'000
Financial assets:								
Gross cash and short term placements	1,336,899	4,587,410	-	-	-	-	-	5,924,309
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	1,955,203	310,400	-	-	-	2,265,603
Gross loans and advances and receivables	757,199	1,449,516	768,560	2,218,541	6,572,707	13,493,108	224,041	25,483,672
Equity investments at fair value through other comprehensive income	-	-	-	-	-	-	6,804	6,804
Gross held-to-collect debt securities at amortised cost	-	579,201	887,021	4,485,948	887,312	-	-	6,839,482
Other assets	66	192,390	11,607	40,944	1,021	-	136,765	382,793
Gross foreign exchange contracts	116,292	1,339,892	457,585	-	-	-	-	1,913,769
Total financial assets	2,210,456	8,148,409	4,079,976	7,055,833	7,461,040	13,493,108	367,610	42,816,432
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	760,812	128,180	145,000	50,000	-	-	-	1,083,992
Customer deposits at amortised cost	12,893,052	7,280,993	10,244,797	2,912,845	6,228	-	-	33,337,915
Lease liabilities	-	7,607	14,749	59,742	101,507	3,789	-	187,394
Other liabilities	3,249	211,302	11,078	3,812	151	-	215,026	444,618
Gross foreign exchange contracts	116,358	1,339,412	461,662	-	-	-	-	1,917,432
Total financial liabilities	13,773,471	8,967,494	10,877,286	3,026,399	107,886	3,789	215,026	36,971,351
Net liquidity gap	(11,563,015)	(819,085)	(6,797,310)	4,029,434	7,353,154	13,489,319	152,584	5,845,081

NOTES TO INTERIM FINANCIAL STATEMENTS

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

	31 December 2020 (Audited)							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Financial assets:								
Gross cash and short term placements	1,218,482	5,006,156	-	-	-	-	-	6,224,638
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	1,511,190	260,153	-	-	-	1,771,343
Gross loans and advances and receivables	362,551	2,032,116	664,095	2,347,238	6,664,766	13,616,507	219,814	25,907,087
Equity investments at fair value through other comprehensive income	-	-	-	-	-	-	6,804	6,804
Gross held-to-collect debt securities at amortised cost	-	384,690	1,451,321	4,178,935	720,991	-	-	6,735,937
Other assets	38	361,421	12,766	41,840	2,161	-	73,239	491,465
Gross foreign exchange contracts	-	564,884	430,205	-	-	-	-	995,089
Total financial assets	1,581,071	8,349,267	4,069,577	6,828,166	7,387,918	13,616,507	299,857	42,132,363
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	51,282	269,856	100,000	-	-	-	-	421,138
Customer deposits at amortised cost	12,208,094	6,429,072	11,910,812	3,649,643	7,508	-	-	34,205,129
Lease liabilities	-	7,390	14,667	33,802	64,756	5,370	-	125,985
Other liabilities	3,307	392,129	24,925	6,458	182	-	209,723	636,724
Gross foreign exchange contracts	-	555,009	417,011	-	-	-	-	972,020
Total financial liabilities	12,262,683	7,653,456	12,467,415	3,689,903	72,446	5,370	209,723	36,360,996
Net liquidity gap	(10,681,612)	695,811	(8,397,838)	3,138,263	7,315,472	13,611,137	90,134	5,771,367

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise customer deposits, bank loans, and 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 and liquidity risk.

The Group's business activities comprise retail and commercial banking services. These activities expose the Group to a variety of risks, mainly interest rate risk, market risk, credit risk, liquidity risk, operational risk and cyber security risk. The respective Boards of Directors (the "Boards") of the Bank and Public Finance review and approve risk management policies for managing each of these risks and they are summarised below.

Risk management structure

The Group's risk management is underpinned by the Group's risk appetite and is subject to the respective Boards' oversight, through the Risk Management Committees ("RMCs") of the Bank and Public Finance, which are Board Committees overseeing the establishment of enterprise-wide risk management policies and processes. The RMCs are assisted by the specific risk oversight committees including the Assets and Liabilities Management Committee ("ALCO"), Operational Risk Management Committee ("ORMC"), Credit Committee, Credit Risk Management Committee ("CRMC"), and Anti-Money Laundering and Counter-terrorist Financing and Compliance Committee or equivalent committees with similar functions of the Bank and Public Finance.

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

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management

Interest rate risk in banking book (“IRRBB”) is internally defined as current or prospective risk arising from adverse movements in market interest rates to the Group’s positions in the banking book. Changes in market interest rate affect economic value of interest-bearing assets, liabilities, 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 maturities. 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 customers with the right to prepay or early repay one’s assets or liabilities such that cash flows related to such financial contracts are altered.

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

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

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

Under the interest rate benchmark reform, IBOR will be gradually phased out from 1 January 2022 and replaced with an alternative nearly RFR. As at 30 June 2021, the Group's financial instruments subject to the interest rate benchmark reform comprised non-derivative financial assets of HK\$245 million. The contracted interest receivables from these financial instruments referencing to IBOR may not be determined when IBOR discontinues to be quoted. In addressing such risks, the Group ceases to enter into new IBOR contracts and liaises with its counterparties to modify existing IBOR contracts by using other interest rate benchmarks or agreeing the fallback interest charging mechanism when IBOR discontinues. These actions for a smooth transition will be completed in year 2021.

Market risk management

(a) Currency risk

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

The Group's assets and liabilities are mainly denominated in Hong Kong dollars ("HKD"), United States dollars ("USD") and Renminbi ("RMB"). 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 2021, 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\$12 million (31 December 2020: HK\$12 million) mainly as a result of foreign exchange impact arising from the net structural position of RMB denominated operating capital.

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(a) Currency risk (Continued)

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

	30 June 2021					
	(Unaudited)					
	Spot assets HK\$'million	Spot liabilities HK\$'million	Forward purchases HK\$'million	Forward sales HK\$'million	Net short position HK\$'million	Structural assets HK\$'million
USD	6,327	5,569	570	1,329	(1)	-
RMB	636	647	-	9	(20)	1,202
Others	1,132	1,583	880	430	(1)	-
	8,095	7,799	1,450	1,768	(22)	1,202

	31 December 2020					
	(Audited)					
	Spot assets HK\$'million	Spot liabilities HK\$'million	Forward purchases HK\$'million	Forward sales HK\$'million	Net short position HK\$'million	Structural assets HK\$'million
USD	5,792	5,328	252	718	(2)	-
RMB	1,208	1,223	-	-	(15)	1,191
Others	1,351	1,855	728	226	(2)	-
	8,351	8,406	980	944	(19)	1,191

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(b) Price risk

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

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

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

Credit risk management

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

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

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

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

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

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management (Continued)

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

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

RMCs of the Bank and Public Finance are responsible for reviewing and assessing the adequacy of risk management framework for identifying, measuring, monitoring and controlling the credit risk of existing and new products. The Committees also review credit risk management policies and credit risk tolerance limits. The RMC of the Bank is assisted by CRMC for discharging its responsibilities on credit risk management issues.

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

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

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

Liquidity risk management

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

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

Treasury Department of the Bank and a dedicated department of Public Finance are responsible for the centralised implementation of the strategies and policies approved by the dedicated committees and the respective Boards, and developing operational procedures and controls to ensure the compliance with the aforesaid policies and to minimise operational disruptions in case of a liquidity crisis.

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

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

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

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

The Group maintains sufficient liquidity cushion comprising mainly bills, notes or bonds issued by eligible central governments in a total amount of not less than HK\$2.0 billion to address critical and emergent liquidity needs on intraday basis and over other different time horizons. The Group is not subject to particular collateral arrangements or requirements in contracts in case there is a credit rating downgrade of entities within the Group.

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

Regulatory liquidity ratios

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

	For the six months ended 30 June 2021 2020 (Unaudited) (Unaudited)	
Liquidity Maintenance Ratio		
- Public Bank (Hong Kong) Group	53.3%	51.3%
- The Bank	51.8%	50.0%
- Public Finance	85.0%	75.8%
Core Funding Ratio		
- Public Bank (Hong Kong) Group	143.2%	134.2%
- The Bank	140.8%	131.2%

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Regulatory liquidity ratios (Continued)

The average liquidity maintenance ratio and core funding ratio are computed using the arithmetic mean of each calendar month's average ratio as reported in the return relating to the liquidity position submitted to the HKMA. The core funding ratio is not applicable to Public Finance.

Liquidity exposures and funding needs are measured and assessed at the level of individual legal entities (i.e. the Bank and its core operating subsidiaries) and Mainland China Office (i.e. Shenzhen Branch and its sub-branches). Pursuant to the HKMA/SFC's requirements, the transferability of liquidity of the Bank and its operating subsidiaries takes into account the need of compliance with trigger points of liquidity related ratios and minimum liquidity capital level; and other legal and regulatory limitations such as limits of connected exposures and capital related ratios. Pursuant to the requirements of China Banking and Insurance Regulatory Commission, the Mainland China Office of the Bank is required to maintain regulatory liquidity ratios in RMB and foreign currencies of not less than 25%. Due to the foreign exchange controls imposed by the State Administration of Foreign Exchange ("SAFE") in China, cross-border funding flows to and from Mainland China are subject to the supervision and approval of SAFE. In view of the limitation on transferability of liquidity, Mainland China Office has maintained high and sufficient liquidity to meet its business needs. As at 30 June 2021, the liquidity ratios in RMB and foreign currencies of Mainland China Office were more than 100%.

Operational risk management

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

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

Cyber security risk management

Cyber security risk is the risk of loss resulting from a cyber attack or information security breach on the Bank. The Bank has put in place adequate resources and established cyber security risk management policy in accordance with the requirements of the HKMA's Cybersecurity Fortification Initiative and other industry standards to provide guidance on managing cyber security risk, improving cyber resilience as well as ensuring adequate cyber security awareness throughout the Bank. The Bank also periodically engaged qualified professional assessors to conduct assessments and simulation attacks to assess the robustness of the Bank's cyber security controls.

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

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

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

Capital adequacy ratios

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Consolidated CET1 Capital Ratio	22.1%	21.3%
Consolidated Tier 1 Capital Ratio	22.1%	21.3%
Consolidated Total Capital Ratio	22.8%	22.1%

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

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital disclosures

The components of capital base include the following items:

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
CET1 capital instruments	2,854,045	2,854,045
Retained earnings	3,312,871	3,190,432
Disclosed reserves	111,273	109,980
CET1 capital before deduction	6,278,189	6,154,457
Deduct:		
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	(56,996)	(56,024)
Regulatory reserve for general banking risk	(44,197)	(53,280)
Goodwill	(242,342)	(242,342)
Deferred tax assets in excess of deferred tax liabilities	(11,803)	(11,787)
CET1 capital after deduction	5,922,851	5,791,024
Additional Tier 1 capital	-	-
Tier 1 capital after deductions	5,922,851	5,791,024
Reserve attributable to fair value gains	25,648	25,211
Regulatory reserve for general banking risk	44,197	53,280
Collective provisions	127,593	121,301
	171,790	174,581
Tier 2 capital	197,438	199,792
Capital base	6,120,289	5,990,816
Total risk-weighted assets	26,786,356	27,128,984

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital conservation buffer (CCB)

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

Countercyclical capital buffer (CCyB)

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

As at 30 June 2021, Public Bank (Hong Kong) Group has reserved a capital buffer, inclusive of CCyB ratio of 1.0 %, to the private sector credit exposures in Hong Kong.

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

Jurisdiction (J)	Applicable JCCyB ratio in effect %	30 June 2021 (Unaudited)		
		Total RWA used in computation of CCyB ratio HK\$'000	CCyB ratio %	CCyB amount HK\$'000
1. Hong Kong	1.000	16,922,906		
2. Mainland China	-	1,587,867		
Total		18,510,773	0.914	169,229

Jurisdiction (J)	Applicable JCCyB ratio in effect %	31 December 2020 (Audited)		
		Total RWA used in computation of CCyB ratio HK\$'000	CCyB ratio %	CCyB amount HK\$'000
1. Hong Kong	1.000	17,091,917		
2. Mainland China	-	1,647,094		
Total		18,739,011	0.912	170,919

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Leverage ratio

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

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Consolidated Tier 1 Capital	5,922,851	5,791,024
Consolidated Exposure Measure for Leverage Ratio	41,649,284	41,800,473
Consolidated Leverage Ratio	14.2%	13.9%

The disclosure on leverage ratio has been effective since 31 March 2015 and the relevant disclosures can be viewed in the Regulatory Disclosure Statement for the position date of 30 June 2021 to be published in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 September 2021.

Principal subsidiaries and basis of consolidation

The basis of consolidation for financial accounting purposes is in accordance with HKFRSs, as described in note 3 to the interim financial statements.

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

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

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

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital instruments

To comply with the Banking (Disclosure) Rules, the Group will present all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group's published interim financial statements in the Regulatory Disclosure Statement for the position date of 30 June 2021 to be published in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 September 2021.

The disclosure will include the following information:

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

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

		30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
	Note		
CET1 capital instruments issued by the Bank			
Ordinary shares:			
14,816,000 issued and fully paid ordinary shares	24	2,854,045	2,854,045

Pillar 3 disclosures

Further disclosures with respect to capital adequacy and risk management were shown in the Pillar 3 disclosures templates as required by the Banking (Disclosure) Rules. The Group will publish the Regulatory Disclosure Statement for the position date of 30 June 2021 in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 September 2021.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(A) ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

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

				30 June 2021 New impairment allowances for loans charged to income statement	Amount of impaired loans and advances written off	Collateral	Percentage of gross advances covered by collateral %	Impaired loans and advances	Loans and advances overdue for more than three months
	Gross loans and advances HK\$'000	Impairment allowances collectively assessed HK\$'000	Impairment allowances specifically assessed HK\$'000	HK\$'000	HK\$'000	HK\$'000		HK\$'000	HK\$'000
Loans and advances for use in Hong Kong									
Manufacturing	192,621	159	-	58	-	183,449	95.2	-	-
Building and construction, property development and investment									
Property development	115,466	12	-	12	-	115,466	100.0	-	-
Property investment	5,148,215	514	-	1	-	5,148,179	100.0	1,156	1,156
Civil engineering works	167,578	138	-	35	-	79,145	47.2	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	17,820	3	-	-	-	17,721	99.4	-	-
Information technology	906	-	-	-	-	906	100.0	-	-
Wholesale and retail trade	280,434	518	-	264	68	242,168	86.4	-	-
Transport and transport equipment	4,806,885	21,410	9,380	6,797	-	4,492,888	93.5	14,051	10,386
Hotels, boarding houses and catering	77,312	38	-	-	-	75,604	97.8	-	-
Financial concerns	92,493	9	-	-	-	92,484	100.0	-	-
Stockbrokers									
Margin lending	108,674	11	-	8	-	108,674	100.0	-	-
Others	203,000	20	-	2	-	123,000	60.6	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	14,174	1	-	-	-	14,174	100.0	-	-
Others	508,399	54	-	-	-	508,399	100.0	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	25,155	3	-	-	-	25,155	100.0	-	-
Loans for the purchase of other residential properties	7,475,892	744	3	14	-	7,475,892	100.0	33,283	30,916
Loans for credit card advances	-	-	-	-	38	-	-	-	-
Loans for other business purposes	7,171	1	-	-	-	7,171	100.0	-	-
Loans for other private purposes	3,528,680	100,133	33,384	138,917	105,268	189,540	5.4	62,703	28,360
Trade finance	437,892	188	-	82	-	423,725	96.8	-	-
Other loans and advances	79,491	43	-	-	-	77,339	97.3	-	-
Sub-total	23,288,258	123,999	42,767	146,190	105,374	19,401,079	83.3	111,193	70,818
Loans and advances for use outside Hong Kong	2,098,249	800	8,087	1,422	319	2,068,036	98.6	101,182	101,183
Total loans and advances (excluding trade bills and other receivables)	25,386,507	124,799	50,854	147,612	105,693	21,469,115	84.6	212,375	172,001

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

				31 December 2020					
	Gross loans and advances HK\$'000	Impairment allowances collectively assessed HK\$'000	Impairment allowances specifically assessed HK\$'000	New impairment allowances for loans charged to income statement HK\$'000	Amount of impaired loans and advances written off HK\$'000	Collateral HK\$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK\$'000	Loans and advances overdue for more than three months HK\$'000
Loans and advances for use in Hong Kong									
Manufacturing	199,130	375	-	40	-	191,198	96.0	-	-
Building and construction, property development and investment									
Property development	-	-	-	-	-	-	-	-	-
Property investment	5,240,270	523	1	2	-	5,240,270	100.0	6,653	6,653
Civil engineering works	172,297	131	-	84	-	84,196	48.9	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	22,541	5	14	15	-	22,351	99.2	2,278	2,278
Information technology	929	-	-	-	-	929	100.0	-	-
Wholesale and retail trade	220,548	500	139	379	21	186,657	84.6	139	139
Transport and transport equipment	4,777,541	14,827	9,770	5,788	208	4,409,938	92.3	23,043	19,422
Hotels, boarding houses and catering	82,555	63	-	-	-	79,872	96.8	-	-
Financial concerns	312,061	31	-	-	-	312,061	100.0	-	-
Stockbrokers									
Margin lending	26,100	3	-	-	-	26,100	100.0	-	-
Others	175,000	18	-	-	-	95,000	54.3	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	12,520	1	-	-	-	12,520	100.0	-	-
Others	508,974	56	-	5	-	508,974	100.0	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	28,528	3	-	-	-	28,528	100.0	-	-
Loans for the purchase of other residential properties	7,459,835	744	3	40	-	7,459,835	100.0	24,777	22,654
Loans for credit card advances	1,094	30	32	39	51	-	-	32	32
Loans for other business purposes	8,048	1	-	-	-	8,048	100.0	-	-
Loans for other private purposes	3,709,520	100,300	41,482	348,261	325,359	212,032	5.7	87,199	35,100
Trade finance	620,585	106	-	-	-	609,418	98.2	-	-
Other loans and advances	77,681	50	-	-	-	75,629	97.4	-	-
Sub-total	23,655,757	117,767	51,441	354,653	325,639	19,563,556	82.7	144,121	86,278
Loans and advances for use outside Hong Kong	2,160,200	832	7,380	9,555	1,344	2,141,462	99.1	66,784	66,783
Total loans and advances (excluding trade bills and other receivables)	25,815,957	118,599	58,821	364,208	326,983	21,705,018	84.1	210,905	153,061

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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(B) INTERNATIONAL CLAIMS

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

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

30 June 2021					
	Banks	Official	Non-bank	Non-financial	Total
	HK\$'million	sector	financial	private	
	HK\$'million	HK\$'million	institutions	sector	HK\$'million
1. Developed countries	3,306	9	-	188	3,503
2. Offshore centres, of which	1,595	4	206	1,579	3,384
– Hong Kong	950	4	126	1,100	2,180
3. Developing Asia-Pacific, of which	5,378	154	-	2,591	8,123
– China	3,393	154	-	2,538	6,085

31 December 2020					
	Banks	Official	Non-bank	Non-financial	Total
	HK\$'million	sector	financial	private	
	HK\$'million	HK\$'million	institutions	sector	HK\$'million
1. Developed countries	2,622	9	-	197	2,828
2. Offshore centres, of which	1,943	2	109	2,002	4,056
– Hong Kong	1,309	2	29	1,383	2,723
3. Developing Asia-Pacific, of which	5,252	147	-	2,345	7,744
– China	3,375	146	-	2,290	5,811

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

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

Types of counterparties	30 June 2021		Total HK\$'million
	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	
Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	129	-	129
People's Republic of China ("PRC") nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	193	-	193
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	4	-	4
Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	1,690	-	1,690
Total	2,016	-	2,016
Total assets after provision	37,369		
On-balance sheet exposures as percentage of total assets	5.39%		

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

Types of counterparties	31 December 2020		Total HK\$'million
	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	
Central government, central government-owned entities and their subsidiaries and JVs	222	-	222
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	269	12	281
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	4	-	4
Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	1,663	-	1,663
Total	2,158	12	2,170
Total assets after provision	37,410		
On-balance sheet exposures as percentage of total assets	5.77%		

Note:

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

BUSINESS PERFORMANCE

For the six months ended 30 June 2021, the Group recorded a profit after tax of HK\$237.7 million, representing a growth of HK\$82.3 million or 53.0% as compared to the profit after tax of HK\$155.4 million for the corresponding period in 2020. The increase in earnings of the Group was mainly attributed to the increase in net interest income and decrease in credit loss expense for the period under review.

During the period under review, the Group's net interest income increased by HK\$21.1 million or 3.4% to HK\$634.6 million due to lower funding cost amidst ample market liquidity with subdued loan demands. Total interest income declined by HK\$148.2 million or 17.2% to HK\$714.9 million, and total interest expense recorded a sharper decline by HK\$169.3 million or 67.8% to HK\$80.2 million. Other operating income of the Group increased marginally by HK\$0.4 million or 0.3% to HK\$126.8 million, mainly due to a higher fees and commission income from wealth management services, stockbroking and securities management and gain from dealing in foreign currencies, offset by the reduction in government subsidies by HK\$10.3 million in the period under review.

Fair value of investment properties increased by HK\$1.0 million during the period under review as compared to a revaluation loss of HK\$3.2 million in the corresponding period of last year.

The Group's operating expenses decreased by HK\$4.4 million or 1.0% to HK\$424.6 million mainly due to lower marketing expenses in the period under review.

Credit loss expenses decreased by HK\$68.9 million or 58.7% to HK\$48.5 million mainly due to reduction in credit charges for unsecured consumer financing loans and advances driven by the reduced loan delinquency and bankruptcy cases of the segment during the period under review. Overall impaired loans to total loans ratio of the Group increased marginally by 0.02% to 0.84% as at 30 June 2021 from 0.82% as at 31 December 2020 with mild increase of impaired loans in secured segments.

The Group's total loans and advances (including trade bills) decreased by HK\$422.9 million or 1.6% to HK\$25.41 billion as at 30 June 2021 from HK\$25.84 billion as at 31 December 2020. The Group's deposits from customers decreased by HK\$867.2 million or 2.5% to HK\$33.34 billion as at 30 June 2021 as compared to the position of 31 December 2020. Total assets of the Group stood at HK\$41.61 billion as at 30 June 2021.

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

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

16 July 2021