PUBLIC FINANCE LIMITED

INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

CONTENTS

PUBLIC FINANCE LIMITED
(Incorporated in Hong Kong with limited liability)
(Website: www.publicfinance.com.hk)

INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The Board of Directors (the "Board") of Public Finance Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (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	
		2021	2020
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'000
Interest income	7	**374,617**	422,107
Interest expense	7	**(26,461)**	(71,092)
NET INTEREST INCOME		**348,156**	351,015
Other operating income	8	**62,621**	66,896
OPERATING INCOME		**410,777**	417,911
Operating expenses	9	**(209,022)**	(219,045)
Changes in fair value of investment properties		**248**	(809)
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		**202,003**	198,057
Credit loss expenses	10	**(41,960)**	(114,274)
PROFIT BEFORE TAX		**160,043**	83,783
Tax	11	**(26,653)**	(13,284)
PROFIT FOR THE PERIOD		**133,390**	70,499
ATTRIBUTABLE TO:			
Owners of the Company		**133,390**	70,499

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	**133,390**	70,499
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**133,390**	70,499
ATTRIBUTABLE TO:		
Owners of the Company	**133,390**	70,499

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2021 (Unaudited) HK$'000**	31 December 2020 (Audited) HK$'000
ASSETS			
Cash and short term placements	13	**1,027,885**	1,313,378
Loans and advances and receivables	14	**5,181,096**	5,351,307
Held-to-collect debt securities at amortised cost	15	**39,992**	39,982
Investment properties	16	**25,060**	24,812
Property and equipment	17	**27,254**	26,184
Land held under finance leases	18	**39,143**	39,820
Right-of-use assets		**84,147**	55,243
Deferred tax assets		**16,718**	16,712
Tax recoverable		**-**	1,713
Intangible assets		**486**	486
Other assets	19	**135,991**	155,793
TOTAL ASSETS		**6,577,772**	7,025,430
EQUITY AND LIABILITIES			
LIABILITIES			
Customer deposits at amortised cost	20	**4,662,336**	5,161,310
Lease liabilities		**83,902**	56,618
Current tax payable		**16,962**	2,284
Deferred tax liabilities		**6,051**	5,251
Other liabilities	19	**191,855**	211,204
TOTAL LIABILITIES		**4,961,106**	5,436,667
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	21	**671,038**	671,038
Reserves	22	**945,628**	917,725
TOTAL EQUITY		**1,616,666**	1,588,763
TOTAL EQUITY AND LIABILITIES		**6,577,772**	7,025,430

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	For the six months ended 30 June **2021** **(Unaudited)** **HK$'000**	2020 (Unaudited) HK$'000
TOTAL EQUITY			
Balance at the beginning of the period		**1,588,763**	1,497,763
Profit for the period		**133,390**	70,499
Other comprehensive income		**-**	-
Total comprehensive income for the period		**133,390**	70,499
Dividends paid in respect of previous year	12(b)	**(105,487)**	(81,908)
Balance at the end of the period		**1,616,666**	1,486,354

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	For the six months ended 30 June **2021** (Unaudited) HK$'000	2020 (Unaudited) HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**160,043**	83,783
Adjustments for:			
Depreciation of property and equipment and land held under finance leases	9	**5,035**	6,013
Depreciation of right-of-use assets	9	**21,542**	22,782
Other interest expenses	7	**710**	902
Gain on termination of leases	8	**(1,052)**	(676)
Net losses on disposal of property and equipment	8	**12**	14
Decrease in credit loss expenses for loans and advances and receivables		**(8,080)**	(17,065)
Increase/(decrease) in credit loss expenses for held-to-collect debt securities at amortised cost and bank placements		**2**	(21)
(Increase)/decrease in fair value of investment properties		**(248)**	809
Payment of dismantling cost		**(92)**	(68)
Profits tax paid		**(9,468)**	(36,706)
Operating profit before changes in operating assets and liabilities		**168,404**	59,767
Decrease in operating assets:			
Decrease in loans and advances and receivables		**178,291**	474,622
Increase in held-to-collect debt securities at amortised cost		**(10)**	-
Decrease in other assets		**19,802**	54,348
		198,083	528,970
Decrease in operating liabilities:			
Decrease in customer deposits at amortised cost		**(498,974)**	(425,259)
Decrease in other liabilities		**(20,035)**	(52,336)
		(519,009)	(477,595)
Net cash (outflow)/inflow from operating activities		**(152,522)**	111,142

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the six months ended 30 June 2021 (Unaudited) HK$'000	2020 (Unaudited) HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	17	**(5,440)**	(7,280)
Sales proceeds from disposal of property and equipment		**-**	113
Net cash outflow from investing activities		**(5,440)**	(7,167)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of lease liabilities		**(22,042)**	(23,151)
Dividends paid on shares		**(105,487)**	(81,908)
Net cash outflow from financing activities		**(127,529)**	(105,059)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(285,491)**	(1,084)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**1,313,399**	1,083,952
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**1,027,908**	1,082,868
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand		**472,742**	584,783
Money at call and short notice with an original maturity within three months		**555,166**	388,089
Placements with banks and financial institutions with an original maturity within three months		**-**	20,000
Held-to-collect debt securities at amortised cost with an original maturity within three months		**-**	89,996
		1,027,908	1,082,868
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		**(32,015)**	(73,718)
Interest received		**376,169**	429,343

NOTES TO INTERIM FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

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

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

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

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

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

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 Company's 2020 annual financial statements, 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 the annual financial statements, and should be read in conjunction with the Company's 2020 annual financial statements.

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 Company'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:

As the Company is a private company, the Company is not required to deliver its financial statements to the Registrar of Companies, and has not done so.

The Company's external auditors have reported on the 2020 annual 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.

NOTES TO INTERIM FINANCIAL STATEMENTS

3. BASIS OF CONSOLIDATION

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

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

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

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

(ii) rights arising from other contractual arrangements; and

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

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

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

3. BASIS OF CONSOLIDATION (Continued)

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:

	30 June 2021		31 December 2020		
Name	**Total assets (Unaudited) HK$'000**	**Total equity (Unaudited) HK$'000**	Total assets (Audited) HK$'000	Total equity (Audited) HK$'000	**Principal activities**
Public Financial Limited	**10,101**	**10,101**	10,101	10,101	Investment holding
Public Securities Limited	**352,332**	**230,833**	341,005	217,090	Securities brokerage
Public Securities (Nominees) Limited	**1,113**	**1,112**	1,122	1,119	Provision of nominee services

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

4. BASIS OF CAPITAL DISCLOSURES

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

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

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

The Group has adopted the provisions of the Banking Ordinance relating to the Basel III capital standards and 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, HKFRS 7, HKFRS 4 and HKFRS 16 — *Interest Rate Benchmark Reform – Phase 2*

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 had 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.

5. ACCOUNTING POLICIES (Continued)

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 HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
• Amendments to HKAS 8	*Definition of Accounting Estimates*[1]

[1] *Effective for annual periods beginning on or after 1 January 2023*

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:

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

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

	Personal and commercial lending businesses For the six months ended 30 June		Stockbroking 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 (Unaudited) HK$'000	2020 (Unaudited) HK$'000	**2021 (Unaudited) HK$'000**	2020 (Unaudited) HK$'000	**2021 (Unaudited) HK$'000**	2020 (Unaudited) HK$'000	**2021 (Unaudited) HK$'000**	2020 (Unaudited) HK$'000
Segment revenue								
External:								
Net interest income/ (expense)	**348,243**	351,443	**(87)**	(428)	**-**	-	**348,156**	351,015
Other operating income:								
Net fees and commission income	**37,171**	37,794	**23,804**	21,408	**-**	-	**60,975**	59.202
Others	**1,255**	7,097	**(4)**	186	**395**	411	**1,646**	7,694
Operating income	**386,669**	396,334	**23,713**	21,166	**395**	411	**410,777**	417,911
Operating profit/(loss) after credit loss expenses before tax	**143,442**	71,067	**16,450**	13,628	**151**	(912)	**160,043**	83,783
Tax							**(26,653)**	(13,284)
Profit for the period							**133,390**	70,499
Other segment information								
Depreciation of property and equipment and land held under finance leases	**(5,035)**	(6,013)	**-**	-	**-**	-	**(5,035)**	(6,013)
Depreciation of right-of-use assets	**(21,542)**	(22,782)	**-**	-	**-**	-	**(21,542)**	(22,782)
Changes in fair value of investment properties	**-**	-	**-**	-	**248**	(809)	**248**	(809)
Credit loss expenses	**(41,960)**	(114,274)	**-**	-	**-**	-	**(41,960)**	(114,274)
Net losses on disposal of property and equipment	**(12)**	(14)	**-**	-	**-**	-	**(12)**	(14)

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.

	Personal and commercial lending businesses		Stockbroking		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	**6,157,669**	6,613,983	**377,839**	367,724	**25,060**	24,812	**6,560,568**	7,006,519
Intangible assets	**-**	-	**486**	486	**-**	-	**486**	486
Segment assets	**6,157,669**	6,613,983	**378,325**	368,210	**25,060**	24,812	**6,561,054**	7,007,005
Unallocated assets: Deferred tax assets and tax recoverable							**16,718**	18,425
Total assets							**6,577,772**	7,025,430
Segment liabilities	**4,796,639**	5,281,340	**141,227**	147,565	**227**	227	**4,938,093**	5,429,132
Unallocated liabilities: Deferred tax liabilities and tax payable							**23,013**	7,535
Total liabilities							**4,961,106**	5,436,667
Other segment information Additions to non-current assets - capital expenditure	**5,440**	14,622	**-**	-	**-**	-	**5,440**	14,622

Geographical information

Over 90% (2020: over 90%) of the Group's operating income, profit before tax, assets, liabilities, off-balance sheet commitments and exposures are derived from operations carried out in Hong Kong. Accordingly, no geographical segment information is presented in the interim financial statements.

Operating income or revenue from major customers

Operating income or revenue from transactions with each external customer amounts to less than 10% (2020: less than 10%) of the Group's total operating income or revenue.

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	**373,968**	418,230
Short term placements and placements with banks	**639**	2,830
Held-to-collect debt securities at amortised cost	**10**	1,047
	374,617	422,107
Interest expense on:		
Deposits from customers	**25,584**	69,747
Bank loans	**167**	443
Others	**710**	902
	26,461	71,092

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$374,617,000 and HK$26,461,000 (2020: HK$422,107,000 and HK$71,092,000) respectively.

8. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Fees and commission income:		
Personal and commercial lending	**37,171**	37,794
Stockbroking	**23,804**	21,408
	60,975	59,202
Gross rental income	**398**	414
Less: Direct operating expenses	**(3)**	(3)
Net rental income	**395**	411
Net losses on disposal of property and equipment	**(12)**	(14)
Gain on termination of leases	**1,052**	676
Government subsidies	**90**	6,455
Others	**121**	166
	62,621	66,896

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.

There were no net gains or losses arising from equity investments at fair value through other comprehensive income ("FVOCI"), loans and advances and receivables, financial assets and liabilities measured at amortised cost and financial assets and liabilities designated at FVPL for the six months ended 30 June 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	**128,984**	134,063
Pension contributions	**6,404**	6,488
Less: Forfeited contributions	**(24)**	(50)
Net contribution to retirement benefit schemes	**6,380**	6,438
	135,364	140,501
Other operating expenses:		
Depreciation of right-of-use assets	**21,542**	22,782
Depreciation of property and equipment and land held under finance leases	**5,035**	6,013
Administrative and general expenses	**17,842**	18,958
Others	**29,239**	30,791
Operating expenses before changes in fair value of investment properties	**209,022**	219,045

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.

10. CREDIT LOSS EXPENSES

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

	For the six months ended 30 June 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	**336**	**(310)**	**41,922**	**41,948**
- accrued interest and other receivables	**3**	**-**	**-**	**3**
- cash and short term placements	**2**	**-**	**-**	**2**
- held-to-collect debt securities at amortised cost	**-**	**-**	**-**	**-**
- loan commitments	**7**	**-**	**-**	**7**
	348	**(310)**	**41,922**	**41,960**

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	(15,053)	(4,295)	134,035	114,687
- accrued interest and other receivables	(388)	-	-	(388)
- cash and short term placements	2	-	-	2
- held-to-collect debt securities at amortised cost	(23)	-	-	(23)
- loan commitments	(4)	-	-	(4)
	(15,466)	(4,295)	134,035	114,274

11. TAX

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current tax charge	**25,879**	9,654
Deferred tax charge, net	**774**	3,630
	26,653	13,284

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.

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

	For the six months ended 30 June			
	2021		2020	
	(Unaudited)		(Unaudited)	
	HK$'000	**%**	HK$'000	%
Profit before tax	**160,043**		83,783	
Tax at the applicable tax rate	**26,407**	**16.5**	13,824	16.5
Estimated tax effect of net expenses/(income) that are/is not deductible/(taxable)	**246**	**0.2**	(540)	(0.6)
Tax charge at the Group's effective rate	**26,653**	**16.7**	13,284	15.9

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 cents per ordinary share		**HK$'000**	HK$'000
Interim dividend	**36.987**	18.264	**95,722**	47,267

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

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

	For the six months ended 30 June			
	2021	2020	**2021**	2020
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK cents per ordinary share		**HK$'000**	HK$'000
Final dividend in respect of the previous year	**40.760**	31.649	**105,487**	81,908

13. CASH AND SHORT TERM PLACEMENTS

	30 June 2021 (Unaudited) HK$'000	31 December 2020 (Audited) HK$'000
Cash and placements with banks and financial institutions	**472,742**	478,556
Money at call and short notice	**555,166**	834,843
Gross cash and short term placements	**1,027,908**	1,313,399
Less: Impairment allowances collectively assessed		
As at 1 January 2021 and 2020	**(21)**	(24)
Credit loss expenses (charged)/released to the consolidated income statement during the period/year	**(2)**	3
	(23)	(21)
Cash and short term placements	**1,027,885**	1,313,378

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.

14. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2021 (Unaudited) HK$'000	31 December 2020 (Audited) HK$'000
Loans and advances to customers	**5,280,865**	5,457,611
Accrued interest	**34,806**	36,351
Gross loans and advances and receivables	**5,315,671**	5,493,962
Less: Impairment allowances*		
- specifically assessed	**(33,281)**	(41,397)
- collectively assessed	**(101,294)**	(101,258)
	(134,575)	(142,655)
Loans and advances and receivables	**5,181,096**	5,351,307

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, taxi licences and vehicles.

** The balances also include the impairment allowances of HK$19,000 and HK$12,000 on off-balance sheet credit exposures as at 30 June 2021 and 31 December 2020 respectively.*

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	**5,095,971**	5,260,978
Past due but not impaired loans and advances and receivables	**153,416**	140,372
Credit impaired loans and advances	**66,158**	92,496
Credit impaired receivables	**126**	116
Gross loans and advances and receivables	**5,315,671**	5,493,962

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

About 36% (31 December 2020: about 35%) of "Neither past due nor impaired loans and advances and receivables" were property mortgage loans and taxi financing loans secured by customer deposits, properties, taxi licences and vehicles.

(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	**27,048**	**0.51**	38,076	0.70
One year or less but over six months	**4,819**	**0.09**	2,496	0.04
Over one year	**-**	**-**	-	-
Loans and advances overdue for more than three months	**31,867**	**0.60**	40,572	0.74
Rescheduled loans and advances overdue for three months or less	**32,306**	**0.61**	50,103	0.92
Impaired loans and advances overdue for three months or less	**1,985**	**0.04**	1,821	0.03
Total overdue and impaired loans and advances	**66,158**	**1.25**	92,496	1.69

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2021 (Unaudited) HK$'000	31 December 2020 (Audited) HK$'000
Accrued interest and other receivables overdue for:		
Six months or less but over three months	**-**	66
One year or less but over six months	**126**	50
Over one year	**-**	-
Accrued interest and other receivables overdue for more than three months	**126**	116
Impaired accrued interest and other receivables overdue for three months or less	**-**	-
Total overdue and impaired accrued interest and other receivables	**126**	116

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

14. 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) HK$'000	31 December 2020 (Audited) HK$'000
(i) Analysis of overdue loans and advances and receivables		
Loans and advances and receivables overdue for more than three months	**31,993**	40,688
Impairment allowances specifically assessed	**21,066**	25,246
Current market value and fair value of collateral	**5,440**	9,400
(ii) Analysis of impaired loans and advances and receivables		
Impaired loans and advances and receivables	**66,284**	92,612
Impairment allowances specifically assessed	**33,281**	41,397
Current market value and fair value of collateral	**5,440**	9,400

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.

14. 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	**5,440**	9,400
Covered portion of overdue loans and advances	**3,670**	5,345
Uncovered portion of overdue loans and advances	**28,197**	35,227

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.

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(d) Repossessed assets

As at 30 June 2021, the total value of repossessed assets of the Group amounted to HK$5,440,000 (31 December 2020: Nil).

(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	**153,065**	**2.9**	140,206	2.6
Accrued interest and other receivables overdue for three months or less	**351**		166	

14. 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	**5,362,029**	**39,321**	**92,612**	**5,493,962**
New loans/financing originated	**1,650,694**	**-**	**-**	**1,650,694**
Loans/financing derecognised or repaid during the period (other than write-offs)	**(1,710,080)**	**(5,286)**	**(8,135)**	**(1,723,501)**
Transfer to 12-month expected credit loss (Stage 1)	**20,011**	**(2,265)**	**(17,746)**	**-**
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	**(39,577)**	**39,779**	**(202)**	**-**
Transfer to lifetime expected credit loss credit impaired (Stage 3)	**(77,184)**	**(28,055)**	**105,239**	**-**
Total transfer between stages	**(96,750)**	**9,459**	**87,291**	**-**
Write-offs	**-**	**-**	**(105,484)**	**(105,484)**
As at 30 June 2021	**5,205,893**	**43,494**	**66,284**	**5,315,671**
Arising from:				
Loans and advances	**5,171,255**	**43,452**	**66,158**	**5,280,865**
Accrued interest and other receivables	**34,638**	**42**	**126**	**34,806**
	5,205,893	**43,494**	**66,284**	**5,315,671**

The amount outstanding on financial assets that were written off during the period and are still subject to enforcement action amounted to HK$84,857,000.

14. 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	6,002,633	60,209	121,670	6,184,512
New loans/financing originated	2,544,954	-	-	2,544,954
Loans/financing derecognised or repaid during the year (other than write-offs)	(2,886,170)	(9,147)	(13,417)	(2,908,734)
Transfer to 12-month expected credit loss (Stage 1)	18,481	(1,779)	(16,702)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(36,327)	37,776	(1,449)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(281,542)	(47,738)	329,280	-
Total transfer between stages	(299,388)	(11,741)	311,129	-
Write-offs	-	-	(326,770)	(326,770)
As at 31 December 2020	5,362,029	39,321	92,612	5,493,962
Arising from:				
Loans and advances	5,325,797	39,318	92,496	5,457,611
Accrued interest and other receivables	36,232	3	116	36,351
	5,362,029	39,321	92,612	5,493,962

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK$270,478,000.

14. 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	**5,170,657**	**-**	**-**	**5,170,657**
Special Mention	**35,236**	**43,494**	**-**	**78,730**
Non-performing				
Substandard	**-**	**-**	**55,723**	**55,723**
Doubtful	**-**	**-**	**6,021**	**6,021**
Loss	**-**	**-**	**4,540**	**4,540**
Total	**5,205,893**	**43,494**	**66,284**	**5,315,671**

	31 December 2020 (Audited)			
	Stage 1	Stage 2	Stage 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Internal rating grades:				
Performing				
Pass	5,319,110	-	-	5,319,110
Special Mention	42,919	39,321	-	82,240
Non-performing				
Substandard	-	-	83,882	83,882
Doubtful	-	-	3,805	3,805
Loss	-	-	4,925	4,925
Total	5,362,029	39,321	92,612	5,493,962

14. 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	80,358	20,900	41,397	142,655
New loans/financing originated	36,138	-	-	36,138
Loans/financing derecognised or repaid during the period (other than write-offs)	(36,420)	(2,736)	(58,848)	(98,004)
Transfer to 12-month expected credit loss (Stage 1)	4,841	(729)	(4,112)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(1,620)	1,666	(46)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(2,545)	(15,770)	18,315	-
Total transfer between stages	676	(14,833)	14,157	-
Impact on period end expected credit loss of exposures transferred between stages during the period	(1,741)	17,259	71,572	87,090
Movements due to changes in credit risk	1,693	-	15,041	16,734
Recoveries	-	-	55,446	55,446
Write-offs	-	-	(105,484)	(105,484)
As at 30 June 2021	80,704	20,590	33,281	134,575
Arising from:				
Loans and advances	79,488	20,590	33,281	133,359
Accrued interest and other receivables	1,197	-	-	1,197
Loan commitments	19	-	-	19
	80,704	20,590	33,281	134,575

NOTES TO INTERIM FINANCIAL STATEMENTS

14. 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	97,652	33,749	61,842	193,243
New loans/financing originated	51,559	-	-	51,559
Loans/financing derecognised or repaid during the year (other than write-offs)	(63,578)	(4,941)	(109,241)	(177,760)
Transfer to 12-month expected credit loss (Stage 1)	4,296	(568)	(3,728)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(1,617)	1,949	(332)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(8,355)	(27,604)	35,959	-
Total transfer between stages	(5,676)	(26,223)	31,899	-
Impact on year end expected credit loss of exposures transferred between stages during the year	(1,612)	18,315	251,063	267,766
Movements due to changes in credit risk	2,013	-	29,126	31,139
Recoveries	-	-	103,478	103,478
Write-offs	-	-	(326,770)	(326,770)
As at 31 December 2020	80,358	20,900	41,397	142,655
Arising from:				
Loans and advances	79,152	20,900	41,397	141,449
Accrued interest and other receivables	1,194	-	-	1,194
Loan commitments	12	-	-	12
	80,358	20,900	41,397	142,655

14. 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		**Present value of minimum lease payments**	
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts receivable under finance leases:				
Within one year	**73,767**	72,092	**57,194**	55,871
In the second to fifth years, inclusive	**186,013**	181,409	**135,087**	131,293
Over five years	**590,319**	593,383	**500,508**	503,301
	850,099	846,884	**692,789**	690,465
Less: Unearned finance income	**(157,310)**	(156,419)		
Present value of minimum lease payment receivables	**692,789**	690,465		

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.

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

	30 June 2021 (Unaudited) HK$'000	31 December 2020 (Audited) HK$'000
Unlisted:		
Treasury bills (including Exchange Fund Bills)	**39,996**	39,986
Less: Impairment allowances collectively assessed		
As at 1 January 2021 and 2020	**(4)**	(32)
Credit loss expenses released to the consolidated income statement during the period/year	**-**	28
	(4)	(4)
Held-to-collect debt securities at amortised cost	**39,992**	39,982
Analysed by type of issuers:		
- Central governments	**39,992**	39,982

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 Aa3 based on the credit rating of Moody's, an external credit agency, as at 30 June 2021 and 31 December 2020.

16. INVESTMENT PROPERTIES

	HK$'000
At valuation:	
As at 1 January 2020	26,955
Changes in fair value recognised in the consolidated income statement	(2,143)
As at 31 December 2020 and 1 January 2021 (Audited)	**24,812**
Changes in fair value recognised in the consolidated income statement	**248**
As at 30 June 2021 (Unaudited)	**25,060**

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

All investment properties were classified under Level 3 in the fair value hierarchy. During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (31 December 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. Accounts 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.

16. 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 HK$	**Weighted average HK$**	Range HK$	Weighted average HK$
Price per square metre	**79,000 to 80,000**	**79,000**	78,000 to 79,000	79,000

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 23(a) to the interim financial statements.

17. PROPERTY AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
As at 1 January 2020	6,247	110,891	1,609	118,747
Additions	-	14,536	86	14,622
Disposals/write-off	-	(1,903)	-	(1,903)
As at 31 December 2020 and 1 January 2021 (Audited)	**6,247**	**123,524**	**1,695**	**131,466**
Additions	**-**	**5,440**	**-**	**5,440**
Disposals/write-off	**-**	**(2,671)**	**-**	**(2,671)**
As at 30 June 2021 (Unaudited)	**6,247**	**126,293**	**1,695**	**134,235**
Accumulated depreciation:				
As at 1 January 2020	2,059	92,770	1,609	96,438
Provided during the year	124	10,468	22	10,614
Disposals/write-off	-	(1,770)	-	(1,770)
As at 31 December 2020 and 1 January 2021 (Audited)	**2,183**	**101,468**	**1,631**	**105,282**
Provided during the period	**62**	**4,286**	**10**	**4,358**
Disposals/write-off	**-**	**(2,659)**	**-**	**(2,659)**
As at 30 June 2021 (Unaudited)	**2,245**	**103,095**	**1,641**	**106,981**
Net carrying amount:				
As at 30 June 2021 (Unaudited)	**4,002**	**23,198**	**54**	**27,254**
As at 31 December 2020 (Audited)	4,064	22,056	64	26,184

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.

18. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
As at 1 January 2020, 31 December 2020 and 1 January 2021 (Audited), and 30 June 2021 (Unaudited)	**60,623**
Accumulated depreciation and impairment:	
As at 1 January 2020 (Audited)	19,449
Depreciation provided during the year	1,354
As at 31 December 2020 and 1 January 2021 (Audited)	**20,803**
Depreciation provided during the period	**677**
As at 30 June 2021 (Unaudited)	**21,480**
Net carrying amount:	
As at 30 June 2021 (Unaudited)	**39,143**
As at 31 December 2020 (Audited)	39,820

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.

19. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	30 June 2021 (Unaudited) HK$'000	31 December 2020 (Audited) HK$'000
Interest receivable from financial institutions	**15**	22
Other debtors, deposits and prepayments	**135,287**	139,940
Amount due from a fellow subsidiary	**689**	482
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	**-**	15,349
	135,991	155,793

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

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

Other liabilities

	30 June 2021 (Unaudited) HK$'000	31 December 2020 (Audited) HK$'000
Creditors, accruals and interest payable	**115,438**	128,186
Net amount of accounts payable to HKSCC	**76,417**	83,018
	191,855	211,204

20. CUSTOMER DEPOSITS AT AMORTISED COST

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

21. SHARE CAPITAL

	30 June 2021 (Unaudited) HK$'000	31 December 2020 (Audited) HK$'000
Issued and fully paid:		
258,800,000 (2020: 258,800,000) ordinary shares	**671,038**	671,038

22. RESERVES

	Retained profits HK$'000
As at 1 January 2020	826,725
Profit for the year	220,175
Dividends paid in respect of previous year	(81,908)
Dividends paid in respect of current year	(47,267)
As at 31 December 2020 and 1 January 2021 (Audited)	**917,725**
Profit for the period	**133,390**
Dividends paid in respect of previous year	**(105,487)**
As at 30 June 2021 (Unaudited)	**945,628**

23. LEASES

(a) As lessor

The Group leases its investment properties as described in note 16 to the interim financial statements under operating lease arrangements with a lease term of 2 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	**795**	796
In the second to fifth years, inclusive	**169**	566
	964	1,362

(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	**1,794**	1,637
In the second to fifth years, inclusive	**4,443**	4,488
	6,237	6,125

24. OFF-BALANCE SHEET EXPOSURE

Contingent liabilities and commitments

	30 June 2021 (Unaudited) Contractual amount HK$'000	30 June 2021 (Unaudited) Credit risk-weighted amount HK$'000	31 December 2020 (Audited) Contractual amount HK$'000	31 December 2020 (Audited) Credit risk-weighted amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position:				
- With an original maturity of not more than one year	**1,491**	**-**	3,588	-
Undrawn loan facilities with an original maturity of not more than one year or which are unconditionally cancellable, granted to:				
- Customers	**20,086**	**-**	6,292	-
	21,577	**-**	9,880	-

The corresponding ECLs for the outstanding off-balance sheet exposures are included in the analysis of changes in ECL allowances in note 14(f) to the interim financial statements.

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

As at 30 June 2021 and 31 December 2020, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

During the period, no derivative activities were transacted by the Group (2020: Nil).

25. 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. 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 and customer deposits. 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

There were no financial instruments carried at fair value at 30 June 2021 and 31 December 2020.

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 purchases, issues and settlements related to the Level 3 financial instruments.

There were no gain or loss and no OCI reported in the consolidated income statement and consolidated statement of comprehensive income respectively related to Level 3 financial instruments for the period ended 30 June 2021 and the year ended 31 December 2020.

26. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The tables below show an analysis of financial assets and financial liabilities analysed by principal according to the periods that they are expected to be recovered or settled. There were no key off-balance sheet items as at 30 June 2021 and 31 December 2020.

30 June 2021 (Unaudited)	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Gross cash and short term placements	472,742	555,166	-	-	-	-	-	1,027,908
Gross loans and advances and receivables	18,904	233,984	403,283	1,363,327	1,730,548	1,499,467	66,158	5,315,671
Gross held-to-collect debt securities at amortised cost	-	-	39,996	-	-	-	-	39,996
Other assets	-	108,675	-	-	-	-	27,316	135,991
Total financial assets	491,646	897,825	443,279	1,363,327	1,730,548	1,499,467	93,474	6,519,566
Financial liabilities:								
Customer deposits at amortised cost	72,483	906,200	2,102,536	1,581,117	-	-	-	4,662,336
Lease liabilities	-	3,478	6,565	28,417	45,442	-	-	83,902
Other liabilities	486	140,955	4,916	2,142	2,928	-	40,428	191,855
Total financial liabilities	72,969	1,050,633	2,114,017	1,611,676	48,370	-	40,428	4,938,093
Net liquidity gap	418,677	(152,808)	(1,670,738)	(248,349)	1,682,178	1,499,467	53,046	1,581,473

NOTES TO INTERIM FINANCIAL STATEMENTS

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

	31 December 2020 (Audited)							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Gross cash and short term placements	478,556	834,843	-	-	-	-	-	1,313,399
Gross loans and advances and receivables	17,659	248,041	413,410	1,417,165	1,785,999	1,519,192	92,496	5,493,962
Gross held-to-collect debt securities at amortised cost	-	-	-	39,986	-	-	-	39,986
Other assets	-	120,950	-	-	-	-	34,843	155,793
Total financial assets	496,215	1,203,834	413,410	1,457,151	1,785,999	1,519,192	127,339	7,003,140
Financial liabilities:								
Customer deposits at amortised cost	57,061	1,389,376	1,917,198	1,797,675	-	-	-	5,161,310
Lease liabilities	-	3,572	7,013	17,213	28,681	139	-	56,618
Other liabilities	499	153,714	4,684	3,721	1,601	52	46,933	211,204
Total financial liabilities	57,560	1,546,662	1,928,895	1,818,609	30,282	191	46,933	5,429,132
Net liquidity gap	438,655	(342,828)	(1,515,485)	(361,458)	1,755,717	1,519,001	80,406	1,574,008

27. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest Rate Risk Management

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

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

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest Rate Risk Management (Continued)

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

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

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market Risk Management

(a) Currency risk

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

The Group has limited foreign currency risk as the Group's assets and liabilities were mainly denominated in Hong Kong Dollars ("HKD") for the period ended 30 June 2021 and for the year ended 31 December 2020. Directors considered that currency risk was insignificant to the Group. Accordingly, no quantitative market risk disclosures for currency risk have been made.

(b) Price risk

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

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

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit Risk Management

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

The Group has a credit risk management process to measure, monitor and control credit risk. Its credit policy defines the credit extension and measurement criteria, 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 Board or dedicated committees). Segregation of duties in key credit functions is in place to ensure separate credit control and monitoring. Management and recovery of problem credits are handled by an independent work-out team.

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

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

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

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

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit Risk Management (Continued)

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

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

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

The “Neither past due nor impaired loans and advances and receivables” are shown in note 14 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.

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management

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

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

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

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management (Continued)

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

The liquidity risk related metrics include at least liquidity maintenance ratio (with internal risk tolerance higher than the statutory liquidity maintenance ratio); cash-flow mismatches under normal and different stress scenarios; concentration related limits of deposits and other funding sources, and maturity profile of major assets and liabilities (including on-balance sheet and off-balance sheet items). 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 uncommitted facilities and other contingent obligations with regard to not only the contractual terms in agreements with customers but also the manner of past months’ utilization and genuine drawdowns of the credit facilities. In stressed scenario, the utilization and drawdowns of credit facilities are expected to escalate to some extent.

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

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management (Continued)

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

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

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

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management (Continued)

Regulatory liquidity ratio

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

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Average liquidity maintenance ratio	**85.0%**	75.8%

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

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

Operational Risk Management

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

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

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Cyber Security Risk Management

Cyber security risk is the risk of loss resulting from a cyber attack or information security breach on the Group. The Group 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 Group. The Group also periodically engaged qualified professional assessors to conduct assessments and simulation attacks to assess the robustness of the Group's cyber security controls.

Capital Management

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

The Group's policy is to maintain a strong capital base to support the development of the Group's businesses and to meet the statutory capital adequacy ratio and other regulatory capital requirements. Capital is allocated to various business activities of the Group depending on the risks taken by each business 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.

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

Capital adequacy ratios

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
CET1 Capital Ratio	**25.1%**	23.7%
Tier 1 Capital Ratio	**25.1%**	23.7%
Total Capital Ratio	**26.1%**	24.7%

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

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NOTES TO INTERIM FINANCIAL STATEMENTS

27. 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	**671,038**	671,038
Retained earnings	**627,970**	604,038
Disclosed reserves	**-**	-
CET1 capital before deduction	**1,299,008**	1,275,076
Deduct:		
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	**(9,127)**	(8,879)
Regulatory reserve for general banking risk	**-**	-
Deferred tax assets in excess of deferred tax liabilities	**(10,718)**	(11,512)
CET1 capital after deduction	**1,279,163**	1,254,685
Additional Tier 1 capital	**-**	-
Tier 1 capital after deductions	**1,279,163**	1,254,685
Reserve attributable to fair value gains	**4,107**	3,996
Regulatory reserve for general banking risk	**-**	-
Collective provisions	**48,390**	50,469
	48,390	50,469
Tier 2 capital	**52,497**	54,465
Capital base	**1,331,660**	1,309,150
Total risk weighted assets	**5,095,120**	5,297,680

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

Capital conservation buffer (CCB)

The Company 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, the Company 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:

		30 June 2021 (Unaudited)		
Jurisdiction (J)	**Applicable JCCyB ratio in effect %**	**Total RWA used in computation of CCyB ratio HK$'000**	**CCyB ratio %**	**CCyB amount HK$'000**
Hong Kong	**1.000**	**3,721,529**	**1.000**	**37,215**

		31 December 2020 (Audited)		
Jurisdiction (J)	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK$'000	CCyB ratio %	CCyB amount HK$'000
Hong Kong	1.000	3,825,738	1.000	38,257

27. 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
Tier 1 Capital	**1,279,163**	1,254,685
Exposure Measure for Leverage Ratio	**6,292,996**	6,748,814
Leverage Ratio	**20.3%**	18.6%

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 Company's website at www.publicfinance.com.hk under "Regulatory Disclosures" 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 capital adequacy ratios of the Company are Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited.

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

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

Capital instruments

To comply with the Banking (Disclosure) Rules, the Company will present all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Company's published interim financial statements in the Regulatory Disclosure Statement for the position date of 30 June 2021 to be published in the Company's website at www.publicfinance.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 Company's capital instruments;
- a detailed breakdown of the Company's CET1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions, using the standard disclosure template as specified by the HKMA; and
- a full reconciliation between the Company's accounting and regulatory balance sheets, using the standard disclosure template as specified by the HKMA.

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

	Note	**30 June 2021 (Unaudited) HK$'000**	31 December 2020 (Audited) HK$'000
CET1 capital instruments issued			
Ordinary shares:			
258,800,000 issued and fully paid ordinary shares	21	**671,038**	671,038

Pillar 3 disclosures

Further disclosures with respect to capital adequacy and risk management were shown in the Pillar 3 disclosures templates as required by Banking (Disclosure) Rules. The Company will publish the Regulatory Disclosure Statement for the position date of 30 June 2021 in the Company's website at www.publicfinance.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								
	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	**9,130**	**132**	**-**	**58**	**-**	**-**	**-**	**-**	**-**
Building and construction, property development and investment									
Property development	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Property investment	**43,343**	**4**	**-**	**1**	**-**	**43,343**	**100.0**	**-**	**-**
Civil engineering works	**8,433**	**122**	**-**	**35**	**-**	**-**	**-**	**-**	**-**
Electricity and gas	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Recreational activities	**86**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Information technology	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Wholesale and retail trade	**34,889**	**493**	**-**	**258**	**68**	**624**	**1.8**	**-**	**-**
Transport and transport equipment	**639,183**	**205**	**-**	**81**	**-**	**638,289**	**99.9**	**-**	**-**
Hotels, boarding houses and catering	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financial concerns	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stockbrokers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Non-stockbroking companies and individuals for the purchase of shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans for the purchase of other residential properties	**1,181,390**	**118**	**-**	**10**	**-**	**1,181,390**	**100.0**	**3,670**	**3,670**
Loans for credit card advances	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans for other business purposes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans for other private purposes	**3,353,686**	**98,521**	**33,154**	**138,883**	**105,098**	**33,100**	**1.0**	**62,333**	**28,042**
Trade finance	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other loans and advances	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans and advances for use outside Hong Kong	**10,725**	**482**	**127**	**636**	**318**	**-**	**-**	**155**	**155**
Total loans and advances (excluding other receivables)	**5,280,865**	**100,078**	**33,281**	**139,962**	**105,484**	**1,896,746**	**35.9**	**66,158**	**31,867**

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	7,864	112	-	40	-	-	-	-	-
Building and construction, property development and investment									
Property development	-	-	-	-	-	-	-	-	-
Property investment	39,419	4	-	1	-	39,419	100.0	-	-
Civil engineering works	7,989	114	-	84	-	-	-	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	103	1	-	-	-	-	-	-	-
Information technology	-	-	-	-	-	-	-	-	-
Wholesale and retail trade	34,419	481	139	379	-	679	2.0	139	139
Transport and transport equipment	638,212	134	-	230	165	637,817	99.9	-	-
Hotels, boarding houses and catering	-	-	-	-	-	-	-	-	-
Financial concerns	-	-	-	-	-	-	-	-	-
Stockbrokers	-	-	-	-	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares	-	-	-	-	-	-	-	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	-	-	-	-	-	-	-	-	-
Loans for the purchase of other residential properties	1,205,913	120	1	30	-	1,205,913	100.0	5,345	5,345
Loans for credit card advances	-	-	-	-	-	-	-	-	-
Loans for other business purposes	-	-	-	-	-	-	-	-	-
Loans for other private purposes	3,512,752	98,616	41,106	348,003	325,261	35,640	1.0	86,824	34,900
Trade finance	-	-	-	-	-	-	-	-	-
Other loans and advances	-	-	-	-	-	-	-	-	-
Loans and advances for use outside Hong Kong	10,940	470	151	1,697	1,344	-	-	188	188
Total loans and advances (excluding other receivables)	5,457,611	100,052	41,397	350,464	326,770	1,919,468	35.2	92,496	40,572

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) MAINLAND ACTIVITIES

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

	30 June 2021		
Type of counterparties	**On-balance sheet exposure HK$'000**	**Off-balance sheet exposure HK$'000**	**Total HK$'000**
People's Republic of China ("PRC") nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**1,472**	**-**	**1,472**
Total	**1,472**	**-**	**1,472**
Total assets after provision	**6,209,557**		
On-balance sheet exposures as percentage of total assets	**0.02%**		

	31 December 2020		
Type of counterparties	On-balance sheet exposure HK$'000	Off-balance sheet exposure HK$'000	Total HK$'000
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	2,284	-	2,284
Total	2,284	-	2,284
Total assets after provision	6,667,330		
On-balance sheet exposures as percentage of total assets	0.03%		

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.

SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited)

(C) 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.

As at 30 June 2021 and 31 December 2020, the Company had no international claims on foreign counterparties.

BUSINESS PERFORMANCE

For the six months ended 30 June 2021, the Group recorded a profit after tax of HK$133.4 million, representing an increase of HK$62.9 million or 89.2% as compared to the profit after tax of HK$70.5 million for the corresponding period in 2020. The increase in earnings of the Group was mainly attributed to the decrease in credit loss and operating expenses for the period under review.

For the first half of 2021, the Group's total interest income decreased by HK$47.5 million or 11.3% to HK$374.6 million, and total interest expense decreased by HK$44.6 million or 62.8% to HK$26.5 million. Other operating income decreased by HK$4.3 million or 6.4% to HK$62.6 million, mainly due to the reduction in government subsidies by HK$6.4 million, partly offset by the increase in the fees and commission income by HK$1.8 million in the period under review.

The Group's operating expenses decreased by HK$10.0 million or 4.6% to HK$209.0 million mainly due to the decrease in performance-related staff costs and marketing expenses in the period under review.

Credit loss expenses decreased by HK$72.3 million or 63.3% to HK$42.0 million mainly due to decrease in credit charges for unsecured consumer financing loans and advances driven by the reduced loan delinquency and bankruptcy cases during the period under review. Impaired loans to total loans ratio decreased by 0.44% to 1.25% as at 30 June 2021 from 1.69% as at 31 December 2020.

The Group's total gross loans and advances decreased by HK$176.7 million or 3.2% to HK$5.28 billion as at 30 June 2021 from HK$5.46 billion as at 31 December 2020. The Group's customer deposits declined by HK$499.0 million or 9.7% to HK$4.66 billion as at 30 June 2021 from HK$5.16 billion as at 31 December 2020. Total assets of the Group stood at HK$6.58 billion as at 30 June 2021.

The Group will continue to focus on its personal and commercial lending businesses and its stockbroking business.

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

16 July 2021