PUBLIC BANK (HONG KONG) LIMITED

Interim Financial Statements
for the six months ended 30 June 2019

Contents

PUBLIC BANK (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

(Website: www.publicbank.com.hk)

INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The Board of Directors (the "Board") of Public Bank (Hong Kong) Limited (the "Bank") is pleased to announce the unaudited condensed consolidated results of the Bank and its subsidiaries (the "Group") for the six months ended 30 June 2019 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'000
Interest income	7	**973,284**	900,605
Interest expense	7	**(273,600)**	(180,370)
NET INTEREST INCOME		**699,684**	720,235
Other operating income	8	**116,304**	112,234
OPERATING INCOME		**815,988**	832,469
Operating expenses	9	**(439,777)**	(437,724)
Changes in fair value of investment properties		**18,562**	2,116
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		**394,773**	396,861
Credit loss expenses	10	**(97,138)**	(84,629)
PROFIT BEFORE TAX		**297,635**	312,232
Tax	11	**(50,615)**	(55,833)
PROFIT FOR THE PERIOD		**247,020**	256,399
ATTRIBUTABLE TO:			
Owners of the Bank		**247,020**	256,399

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT FOR THE PERIOD	**247,020**	256,399
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations, net of tax	**(1,209)**	(16,831)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**245,811**	239,568
ATTRIBUTABLE TO:		
Owners of the Bank	**245,811**	239,568

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2019 (Unaudited) HK$'000**	31 December 2018 (Audited) HK$'000
ASSETS			
Cash and short term placements	13	**4,442,311**	3,953,045
Placements with banks and financial institutions maturing after one month but not more than twelve months	14	**1,610,207**	1,556,342
Derivative financial instruments	28	**8,025**	2,541
Loans and advances and receivables	15	**28,865,366**	29,594,033
Equity investments at fair value through other comprehensive income	16	**6,804**	6,804
Held-to-collect debt securities at amortised cost	17	**6,658,915**	6,202,949
Deferred tax assets		**43,113**	40,531
Tax recoverable		**12**	579
Intangible assets	19	**718**	718
Property and equipment	20	**117,508**	99,953
Land held under finance leases	21	**145,640**	147,611
Right-of-use assets		**173,829**	-
Investment properties	22	**134,614**	115,930
Goodwill		**242,342**	242,342
Other assets	18	**247,452**	218,835
TOTAL ASSETS		**42,696,856**	42,182,213
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**698,231**	572,712
Derivative financial instruments	28	**147**	7,275
Customer deposits at amortised cost	23	**35,296,249**	35,297,868
Lease liabilities		**181,668**	-
Current tax payable		**48,977**	15,826
Deferred tax liabilities		**14,494**	14,327
Other liabilities	18	**504,188**	445,000
TOTAL LIABILITIES		**36,743,954**	36,353,008

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2019 (Unaudited) HK$'000**	31 December 2018 (Audited) HK$'000
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK			
Share capital	24	**2,854,045**	2,854,045
Reserves	25	**3,098,857**	2,975,160
TOTAL EQUITY		**5,952,902**	5,829,205
TOTAL EQUITY AND LIABILITIES		**42,696,856**	42,182,213

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	For the six months ended 30 June **2019** **(Unaudited)** **HK$'000**	2018 (Unaudited) HK$'000
TOTAL EQUITY			
As at 1 January (Reported)		**5,829,205**	5,624,671
Impact of adopting HKFRS 16	5	**(6,594)**	-
Restated opening balance under HKFRS 16		**5,822,611**	5,624,671
Profit for the period		**247,020**	256,399
Other comprehensive income in translation reserve		**(1,209)**	(16,831)
Total comprehensive income for the period		**245,811**	239,568
Dividends paid in respect of previous year	12(b)	**(115,520)**	(124,810)
Balance at the end of the period		**5,952,902**	5,739,429

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	For the six months ended 30 June 2019 (Unaudited) HK$'000	2018 (Unaudited) HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**297,635**	312,232
Adjustments for:			
Dividend income from listed investments	8	**(69)**	(73)
Dividend income from unlisted investments	8	**(35)**	(700)
Depreciation of property and equipment and land held under finance leases	9	**14,632**	12,267
Increase in fair value of investment properties		**(18,562)**	(2,116)
Increase in credit loss expenses for loans and advances and receivables		**5,610**	1,412
Net losses on disposal of property and equipment		**54**	1
Increase/(decrease) in credit loss expenses for held-to-collect debt securities at amortised cost and bank placements		**101**	(229)
Depreciation of right-of-use assets		**49,441**	-
Interest expenses on lease liabilities	7	**1,896**	-
Gain on termination of leases		**(916)**	-
Exchange differences		**(1,182)**	(16,833)
Profits tax paid		**(18,036)**	(32,021)
Operating profit before changes in operating assets and liabilities		**330,569**	273,940
Decrease in operating assets:			
Decrease in placements with banks and financial institutions		**295,332**	951,224
(Increase)/decrease in derivative financial instruments		**(5,484)**	2,550
Decrease/(increase) in loans and advances and receivables		**723,057**	(306,864)
(Increase)/decrease in held-to-collect debt securities at amortised cost		**(431,680)**	1,102,471
(Increase)/decrease in other assets		**(28,617)**	45,742
		552,608	1,795,123
Increase/(decrease) in operating liabilities:			
Increase/(decrease) in deposits and balances of banks and other financial institutions at amortised cost		**125,519**	(587,557)
Decrease in customer deposits at amortised cost		**(1,619)**	(824,884)
Decrease in certificates of deposit issued at amortised cost		**-**	(753,293)
(Decrease)/increase in derivative financial instruments		**(7,128)**	5,289
Increase/(decrease) in other liabilities		**59,188**	(26,172)
		175,960	(2,186,617)
Net cash inflow/(outflow) from operating activities		**1,059,137**	(117,554)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the six months ended 30 June 2019 (Unaudited) HK$'000	2018 (Unaudited) HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	20	**(30,460)**	(10,908)
Sales proceeds from fixed assets		**68**	-
Dividends received from listed investments		**69**	73
Dividends received from unlisted investments		**35**	700
Net cash outflow from investing activities		**(30,288)**	(10,135)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on shares		**(115,520)**	(124,810)
Repayment of lease liabilities		**(50,479)**	-
Net cash outflow from financing activities		**(165,999)**	(124,810)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**862,850**	(252,499)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**4,103,654**	4,548,402
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**4,966,504**	4,295,903
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand		**1,050,019**	1,086,659
Money at call and short notice with an original maturity within three months		**3,259,439**	2,405,667
Placements with banks and financial institutions with an original maturity within three months		**200,502**	429,362
Held-to-collect debt securities at amortised cost with an original maturity within three months		**456,544**	374,215
		4,966,504	4,295,903
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		**(229,095)**	(170,448)
Interest received		**966,522**	914,334

NOTES TO INTERIM FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

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

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

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

Name	Issued ordinary share capital HK$	Percentage of equity attributable to the Bank Direct %	Percentage of equity attributable to the Bank Indirect %	Principal activities
Public Financial Securities Limited	48,000,000	100	-	Securities brokerage
Public Bank (Nominees) Limited	100,000	100	-	Provision of nominee services
Public Credit Limited	5,000,000	100	-	In members' voluntary liquidation
Public Futures Limited	2	100	-	Dormant
Public Pacific Securities Limited	12,000,000	100	-	In members' voluntary liquidation
Public Finance Limited	671,038,000	100	-	Deposit-taking and financing
Public Financial Limited	10,100,000	-	100	Investment holding
Public Securities Limited	10,000,000	-	100	Securities brokerage
Public Securities (Nominees) Limited	10,000	-	100	Provision of nominee services

NOTES TO INTERIM FINANCIAL STATEMENTS

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in compliance with the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the "HKMA") and in accordance with the same accounting policies adopted in the Group's 2018 Annual Report, except for the changes in accounting policies as set out in note 5 below.

The interim financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group's 2018 Annual Report.

The financial information relating to the year ended 31 December 2018 that is included in the 2019 interim financial statements as comparative information does not constitute the Bank's statutory annual consolidated audited financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the statutory financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Bank's external auditors have reported on those financial statements. The Independent Auditor's Report was unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

3. BASIS OF CONSOLIDATION

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

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

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

(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.

3. BASIS OF CONSOLIDATION (Continued)

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

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

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

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

The subsidiaries consolidated for accounting purpose are as follows:

	30 June 2019		31 December 2018		
Name	**Total assets (Unaudited) HK$**	**Total equity (Unaudited) HK$**	Total assets (Audited) HK$	Total equity (Audited) HK$	**Principal activities**
Public Financial Securities Limited	**60,383,909**	**48,253,001**	75,807,819	48,162,492	Securities brokerage
Public Bank (Nominees) Limited	**100,000**	**100,000**	100,000	100,000	Provision of nominee services
Public Credit Limited	**2,471,985**	**2,471,985**	2,471,985	2,471,985	In members' voluntary liquidation
Public Futures Limited	**1**	**1**	1	1	Dormant
Public Pacific Securities Limited	**4,749,254**	**4,749,254**	4,749,254	4,749,254	In members' voluntary liquidation
Public Finance Limited*	**7,125,790,492**	**1,350,764,815**	6,912,080,102	1,357,152,205	Deposit-taking and financing
Public Financial Limited	**10,101,371**	**10,101,371**	10,101,371	10,101,371	Investment holding
Public Securities Limited	**225,389,545**	**178,567,496**	208,268,064	170,761,740	Securities brokerage
Public Securities (Nominees) Limited	**1,118,507**	**1,117,347**	1,120,596	1,118,096	Provision of nominee services

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

NOTES TO INTERIM FINANCIAL STATEMENTS

4. BASIS OF CAPITAL DISCLOSURES

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

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

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

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

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

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

5. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are generally effective for accounting periods beginning on or after 1 January 2019. The Group has adopted the following new and revised standards for the first time for the interim financial statements:

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

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

HKFRS 16

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

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

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

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

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

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

	1 January 2019 HK$'000
Deferred tax assets	
Closing balance under HKAS 17 at 31 December 2018	40,531
-Deferred tax effect under HKFRS 16	**1,303**
Opening balance under HKFRS 16 at 1 January 2019	**41,834**
Right-of-use assets	
Closing balance under HKAS 17 at 31 December 2018	-
-Recognition of right-of-use assets under HKFRS 16	**140,315**
Opening balance under HKFRS 16 at 1 January 2019	**140,315**
Lease liabilities	
Closing balance under HKAS 17 at 31 December 2018	-
-Recognition of lease liabilities under HKFRS 16	**148,212**
Opening balance under HKFRS 16 at 1 January 2019	**148,212**
Retained profits	
Closing balance under HKAS 17 at 31 December 2018	2,645,726
-Recognition of right-of-use assets under HKFRS 16	**140,315**
-Recognition of lease liabilities under HKFRS 16	**(148,212)**
-Deferred tax effect under HKFRS 16	**1,303**
Opening balance under HKFRS 16 at 1 January 2019	**2,639,132**

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

Statement of Financial Position	31 December 2018 HK$'000	Remeasurement HK$'000	1 January 2019 HK$'000
Assets			
Cash and short term placements	3,953,045	-	**3,953,045**
Placements with banks and financial institutions maturing after one month but not more than twelve months	1,556,342	-	**1,556,342**
Derivative financial instruments	2,541	-	**2,541**
Loans and advances and receivables	29,594,033	-	**29,594,033**
Equity investments at fair value through other comprehensive income	6,804	-	**6,804**
Held-to-collect debt securities at amortised cost	6,202,949	-	**6,202,949**
Deferred tax assets	40,531	**1,303**	**41,834**
Tax recoverable	579	-	**579**
Intangible assets	718	-	**718**
Property and equipment	99,953	-	**99,953**
Land held under finance leases	147,611	-	**147,611**
Right-of-use assets	-	**140,315**	**140,315**
Investment properties	115,930	-	**115,930**
Goodwill	242,342	-	**242,342**
Other assets	218,835	-	**218,835**
Total Assets	42,182,213	**141,618**	**42,323,831**

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

Statement of Financial Position	31 December 2018 HK$'000	**Remeasurement HK$'000**	**1 January 2019 HK$'000**
Equity and Liabilities			
Liabilities			
Deposits and balances of banks and other financial institutions at amortised cost	572,712	**-**	**572,712**
Derivative financial instruments	7,275	**-**	**7,275**
Customer deposits at amortised cost	35,297,868	**-**	**35,297,868**
Lease liabilities	**-**	**148,212**	**148,212**
Current tax payable	15,826	**-**	**15,826**
Deferred tax liabilities	14,327	**-**	**14,327**
Other liabilities	445,000	**-**	**445,000**
Total Liabilities	36,353,008	**148,212**	**36,501,220**
Equity attributable to owners of the Bank			
Share capital	2,854,045	**-**	**2,854,045**
Reserves	2,975,160	**(6,594)**	**2,968,566**
Total Equity	5,829,205	**(6,594)**	**5,822,611**
Total Equity and Liabilities	42,182,213	**141,618**	**42,323,831**

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

Nature of the effect of adoption of HKFRS 16

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

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

Leases previously classified as finance leases

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

Leases previously classified as operating leases

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

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

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

Leases previously classified as operating leases (Continued)

The Group also applied the available practical expedients wherein it:

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

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of HK$140,315,000 were recognised and presented separately in the statement of financial position.
- Additional lease liabilities of HK$148,212,000 were recognised.
- Deferred tax assets increased by HK$1,303,000 because of the deferred tax impact of the changes in assets and liabilities.
- The net effect of these adjustments had been adjusted to retained earnings in the amount of HK$6,594,000.

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

	HK$'000
Operating lease commitments as at 31 December 2018	122,051
Weighted average incremental borrowing rate as at 1 January 2019	**2.73%**
Discounted operating lease commitments as at 1 January 2019	**110,290**
Add:	
Estimated dismantling cost	**4,480**
Payments in optional extension periods not recognised as at 31 December 2018	**33,442**
Lease liabilities as at 1 January 2019	**148,212**

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

Summary of new accounting policies

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

Right-of-use assets

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

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 16 (Continued)

Summary of new accounting policies (Continued)

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

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

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

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

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

	Right-of-use assets	Lease liabilities
	Buildings	
	HK$'000	HK$'000
As at 1 January 2019	**140,315**	**148,212**
Additions	**87,690**	**87,690**
Write-off	**(4,735)**	**(5,651)**
Depreciation expense	**(49,441)**	**-**
Interest expense	**-**	**1,896**
Payments	**-**	**(50,479)**
As at 30 June 2019	**173,829**	**181,668**

The Group recongnised rent expenses from leases of low-value assets of HK$1,156,000 and no rent expenses from short-term leases for the six months ended 30 June 2019.

HK(IFRIC)-Int 23

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

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs

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

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

[1] *Effective for annual periods beginning on or after 1 January 2020*
[2] *No mandatory effective date yet determined but available for adoption*

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

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

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

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

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

6. SEGMENT INFORMATION

Operating segment information

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

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

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

- other businesses segment comprise mainly the letting of investment properties.

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 2019 and 2018.

	Retail and commercial banking businesses For the six months ended 30 June		**Wealth management services, stockbroking and securities management For the six months ended 30 June**		**Other businesses For the six months ended 30 June**		**Total For the six months ended 30 June**	
	2019 (Unaudited) HK$'000	2018 (Unaudited) HK$'000	**2019 (Unaudited) HK$'000**	2018 (Unaudited) HK$'000	**2019 (Unaudited) HK$'000**	2018 (Unaudited) HK$'000	**2019 (Unaudited) HK$'000**	2018 (Unaudited) HK$'000
Segment revenue								
External:								
Net interest income/(expense)	**700,091**	720,280	**(407)**	(45)	**-**	-	**699,684**	720,235
Other operating income:								
Net fees and commission income	**72,655**	75,739	**27,001**	25,716	**-**	-	**99,656**	101,455
Others	**12,892**	6,206	**-**	(1)	**3,756**	4,574	**16,648**	10,779
Operating income	**785,638**	802,225	**26,594**	25,670	**3,756**	4,574	**815,988**	832,469
Operating profit after credit loss expenses before tax	**272,206**	293,291	**13,895**	13,191	**11,534**	5,750	**297,635**	312,232
Tax							**(50,615)**	(55,833)
Profit for the period							**247,020**	256,399
Other segment information								
Depreciation of property and equipment and land held under finance leases	**(14,632)**	(12,267)	**-**	-	**-**	-	**(14,632)**	(12,267)
Changes in fair value of investment properties	**-**	-	**-**	-	**18,562**	2,116	**18,562**	2,116
Credit loss expenses	**(97,138)**	(84,629)	**-**	-	**-**	-	**(97,138)**	(84,629)
Net losses on disposal of property and equipment	**(54)**	(1)	**-**	-	**-**	-	**(54)**	(1)

NOTES TO INTERIM FINANCIAL STATEMENTS

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table discloses certain asset and liability information regarding operating segments as at 30 June 2019 and 31 December 2018.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000	**30 June 2019 (Unaudited) HK$'000**	31 December 2018 (Audited) HK$'000	**30 June 2019 (Unaudited) HK$'000**	31 December 2018 (Audited) HK$'000	**30 June 2019 (Unaudited) HK$'000**	31 December 2018 (Audited) HK$'000
Segment assets other than intangible assets and goodwill	**41,955,490**	41,472,558	**320,567**	309,555	**134,614**	115,930	**42,410,671**	41,898,043
Intangible assets	**-**	-	**718**	718	**-**	-	**718**	718
Goodwill	**242,342**	242,342	**-**	-	**-**	-	**242,342**	242,342
Segment assets	**42,197,832**	41,714,900	**321,285**	310,273	**134,614**	115,930	**42,653,731**	42,141,103
Unallocated assets:								
Deferred tax assets and tax recoverable							**43,125**	41,110
Total assets							**42,696,856**	42,182,213
Segment liabilities	**36,585,949**	36,230,027	**91,062**	89,378	**3,472**	3,450	**36,680,483**	36,322,855
Unallocated liabilities:								
Deferred tax liabilities and tax payable							**63,471**	30,153
Total liabilities							**36,743,954**	36,353,008
Other segment information								
Additions to non-current assets – capital expenditure	**30,460**	80,188	**-**	-	**-**	-	**30,460**	80,188

6. SEGMENT INFORMATION (Continued)

Geographical information

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

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Segment revenue from external customers:		
Hong Kong	**749,205**	765,434
Mainland China	**66,783**	67,035
	815,988	832,469

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

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

	30 June	31 December
	2019	2018
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Non-current assets:		
Hong Kong	**788,098**	590,173
Mainland China	**26,553**	16,381
	814,651	606,554

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

Operating income or revenue from major customers

Operating income or revenue from transactions with each external customer amounts to less than 10% (2018: less than 10%) of the Group's total operating income or revenue**.**

7. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**842,158**	794,811
Short term placements and placements with banks	**60,757**	64,500
Held-to-collect debt securities at amortised cost	**70,369**	41,294
	973,284	900,605
Interest expense on:		
Deposits from banks and financial institutions	**7,830**	4,264
Deposits from customers	**263,407**	175,959
Bank loans	**467**	147
Lease liabilities	**1,896**	-
	273,600	180,370

Interest income and interest expense for the six months ended 30 June 2019, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss ("FVPL"), amounted to HK$973,284,000 and HK$273,600,000 (2018: HK$900,605,000 and HK$180,370,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2019 amounted to HK$5,675,000 (2018: HK$3,335,000).

8. OTHER OPERATING INCOME

	For the six months ended 30 June 2019 (Unaudited) HK$'000	2018 (Unaudited) HK$'000
Fees and commission income:		
Retail and commercial banking	**73,658**	76,409
Wealth management services, stockbroking and securities management	**27,001**	25,716
	100,659	102,125
Less: Fees and commission expenses	**(1,003)**	(670)
Net fees and commission income	**99,656**	101,455
Gross rental income	**3,775**	4,592
Less: Direct operating expenses	**(19)**	(18)
Net rental income	**3,756**	4,574
Gains less losses arising from dealing in foreign currencies	**2,988**	10,056
Net gains/(losses) on derivative financial instruments	**7,877**	(5,218)
	10,865	4,838
Dividend income from listed investments	**69**	73
Dividend income from unlisted investments	**35**	700
Net losses on disposal of property and equipment	**(54)**	(1)
Gain on termination of leases	**916**	-
Others	**1,061**	595
	116,304	112,234

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

There were no net gains or losses arising from equity investments at fair value through other comprehensive income ("FVOCI"), loans and advances and receivables, financial assets and liabilities measured at amortised cost and financial assets and liabilities designated at FVPL for the six months ended 30 June 2019 and 2018.

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

9. OPERATING EXPENSES

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Staff costs:		
Salaries and other staff costs	**256,875**	256,590
Pension contributions	**11,843**	11,856
Less: Forfeited contributions	**(82)**	(8)
Net contribution to retirement benefit schemes	**11,761**	11,848
	268,636	268,438
Other operating expenses:		
Operating lease rentals on leasehold buildings	**-**	50,984
Depreciation of right-of-use assets	**49,441**	-
Depreciation of property and equipment and land held under finance leases	**14,632**	12,267
Administrative and general expenses	**40,819**	37,637
Others	**66,249**	68,398
Operating expenses before changes in fair value of investment properties	**439,777**	437,724

As at 30 June 2019 and 30 June 2018, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The credits for the period ended 30 June 2019 and 30 June 2018 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 2019 (Unaudited)			
	12-month expected credit loss (Stage 1) HK$'000	Lifetime expected credit loss not credit impaired (Stage 2) HK$'000	Lifetime expected credit loss credit impaired (Stage 3) HK$'000	Total HK$'000
Net charge for/(write-back of) credit loss expenses :				
- loans and advances	**522**	**5,367**	**91,030**	**96,919**
- trade bills, accrued interest and other receivables	**101**	**4**	**21**	**126**
- cash and short term placements	**50**	**-**	**-**	**50**
- placements with banks and financial institutions	**5**	**-**	**-**	**5**
- held-to-collect debt securities at amortised cost	**46**	**-**	**-**	**46**
- loan commitments	**(8)**	**-**	**-**	**(8)**
- financial guarantee and letters of credit	**-**	**-**	**-**	**-**
	716	**5,371**	**91,051**	**97,138**

NOTES TO INTERIM FINANCIAL STATEMENTS

10. CREDIT LOSS EXPENSES (Continued)

	For the six months ended 30 June 2018 (Unaudited)			
	12-month expected credit loss (Stage 1) HK$'000	Lifetime expected credit loss not credit impaired (Stage 2) HK$'000	Lifetime expected credit loss credit impaired (Stage 3) HK$'000	Total HK$'000
Net charge for/(write-back of) credit loss expenses :				
- loans and advances	(9)	338	84,427	84,756
- trade bills, accrued interest and other receivables	66	(5)	63	124
- cash and short term placements	(118)	-	-	(118)
- placements with banks and financial institutions	(15)	-	-	(15)
- held-to-collect debt securities at amortised cost	(96)	-	-	(96)
- loan commitments	(21)	-	-	(21)
- financial guarantee and letters of credit	(1)	-	-	(1)
	(194)	333	84,490	84,629

11. TAX

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current tax charge :		
Hong Kong	**38,984**	43,132
Overseas	**12,770**	11,669
Deferred tax (credit)/charge, net	**(1,139)**	1,032
	50,615	55,833

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

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

11. TAX (Continued)

	For the six months ended 30 June 2018 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	261,073		51,159		312,232	
Tax at the applicable tax rate	43,077	16.5	12,790	25.0	55,867	17.9
Estimated tax effect of net (income)/expenses that is/are not (taxable)/deductible	(36)	-	7	-	(29)	-
Estimated tax losses from previous periods utilised	(5)	-	-	-	(5)	-
Tax charge at the Group's effective rate	43,036	16.5	12,797	25.0	55,833	17.9

12. DIVIDENDS

(a) Dividends attributable to the interim period

	For the six months ended 30 June			
	2019 (Unaudited) HK$ per ordinary share	2018 (Unaudited) HK$ per ordinary share	**2019 (Unaudited) HK$'000**	2018 (Unaudited) HK$'000
Interim dividend	**7.451**	8.391	**110,394**	124,321

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

12. DIVIDENDS (Continued)

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

	For the six months ended 30 June			
	2019	2018	**2019**	2018
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$ per ordinary share	HK$ per ordinary share	**HK$'000**	HK$'000
Final dividend in respect of the previous year	**7.797**	8.424	**115,520**	124,810

13. CASH AND SHORT TERM PLACEMENTS

	30 June 2019	31 December 2018
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Cash on hand	**158,295**	166,639
Placements with banks and financial institutions	**891,724**	942,750
Money at call and short notice	**3,392,721**	2,844,035
Gross cash and short term placements	**4,442,740**	3,953,424
Less: Impairment allowances collectively assessed:		
As at 1 January 2019 and 2018	**(379)**	(470)
Credit loss expenses (charged)/released to the to the consolidated income statement during the period/year	**(50)**	91
	(429)	(379)
Cash and short term placements	**4,442,311**	3,953,045

Over 90% (31 December 2018: over 90%) of the placements were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's Investor 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. PLACEMENTS WITH BANKS AND FINANCIAL INSTITUTIONS MATURING AFTER ONE MONTH BUT NOT MORE THAN TWELVE MONTHS

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

Over 90% (31 December 2018: over 90%) of the placements maturing after one month but not more than twelve months were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's.

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

15. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Loans and advances to customers	**28,938,172**	29,678,111
Trade bills	**40,906**	29,724
Loans and advances, and trade bills	**28,979,078**	29,707,835
Accrued interest	**83,090**	77,363
	29,062,168	29,785,198
Other receivables	**1,290**	1,317
Gross loans and advances and receivables	**29,063,458**	29,786,515
Less: Impairment allowances*		
- specifically assessed	**(55,560)**	(55,936)
- collectively assessed	**(142,532)**	(136,546)
	(198,092)	(192,482)
Loans and advances and receivables	**28,865,366**	29,594,033

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

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

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

Loans and advances and receivables are summarised as follows:

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Neither past due nor impaired loans and advances and receivables	**28,206,828**	29,141,861
Past due but not impaired loans and advances and receivables	**666,759**	446,299
Credit impaired loans and advances	**186,400**	195,517
Credit impaired receivables	**3,471**	2,838
Gross loans and advances and receivables	**29,063,458**	29,786,515

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

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2019 (Unaudited)		31 December 2018 (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	**45,780**	**0.16**	93,180	0.31
One year or less but over six months	**51,081**	**0.17**	12,391	0.04
Over one year	**1,523**	**0.01**	4,352	0.02
Loans and advances overdue for more than three months	**98,384**	**0.34**	109,923	0.37
Rescheduled loans and advances overdue for three months or less	**72,191**	**0.25**	67,160	0.23
Impaired loans and advances overdue for three months or less	**15,825**	**0.05**	18,434	0.06
Total overdue and impaired loans and advances	**186,400**	**0.64**	195,517	0.66

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

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

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

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2019 (Unaudited)			31 December 2018 (Audited)		
	Hong Kong	**Mainland China**	**Total**	Hong Kong	Mainland China	Total
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	**71,037**	**30,391**	**101,428**	83,666	28,664	112,330
Impairment allowances specifically assessed	**38,120**	**3**	**38,123**	39,974	3	39,977
Current market value and fair value of collateral			**82,130**			118,970
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**153,628**	**36,243**	**189,871**	161,452	36,903	198,355
Impairment allowances specifically assessed	**55,556**	**4**	**55,560**	55,932	4	55,936
Current market value and fair value of collateral			**134,513**			157,257

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

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**82,130**	118,970
Covered portion of overdue loans and advances	**50,255**	58,172
Uncovered portion of overdue loans and advances	**48,129**	51,751

The assets taken as collateral should satisfy the following criteria:

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

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

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

(d) Repossessed assets

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

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2019 (Unaudited)		31 December 2018 (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	**663,352**	**2.29**	443,414	1.49
Trade bills, accrued interest and other receivables overdue for three months or less	**3,407**		2,885	

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

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

	30 June 2019 (Unaudited)			
	Stage 1 HK$'000	**Stage 2 HK$'000**	**Stage 3 HK$'000**	**Total HK$'000**
Gross loans and advances and receivables as at 1 January 2019	**29,415,840**	**172,320**	**198,355**	**29,786,515**
New loans/financing originated	**5,112,153**	**235**	**974**	**5,113,362**
Loans/financing derecognised or repaid during the period (other than write-offs)	**(5,637,000)**	**(21,983)**	**(27,051)**	**(5,686,034)**
Transfer to 12-month expected credit loss (Stage 1)	**76,071**	**(37,361)**	**(38,710)**	**-**
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	**(137,775)**	**142,856**	**(5,081)**	**-**
Transfer to lifetime expected credit loss credit impaired (Stage 3)	**(157,721)**	**(54,048)**	**211,769**	**-**
Total transfer between stages	**(219,425)**	**51,447**	**167,978**	**-**
Write-offs	**-**	**-**	**(150,385)**	**(150,385)**
As at 30 June 2019	**28,671,568**	**202,019**	**189,871**	**29,063,458**
Arising from:				
Loans and advances	**28,551,053**	**200,719**	**186,400**	**28,938,172**
Trade bills, accrued interest and other receivables	**120,515**	**1,300**	**3,471**	**125,286**
	28,671,568	**202,019**	**189,871**	**29,063,458**

The amount outstanding on financial assets that were written off during the period and are still subject to enforcement action amounted to HK$121,480,000.

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2018 (Audited)			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Gross loans and advances and receivables as at 1 January 2018	29,065,881	183,542	135,035	29,384,458
New loans/financing originated	9,887,398	99	806	9,888,303
Loans/financing derecognised or repaid during the year (other than write-offs)	(9,120,367)	(42,245)	(23,372)	(9,185,984)
Transfer to 12-month expected credit loss (Stage 1)	58,413	(28,434)	(29,979)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(120,688)	123,144	(2,456)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(354,797)	(63,786)	418,583	-
Total transfer between stages	(417,072)	30,924	386,148	-
Write-offs	-	-	(300,262)	(300,262)
As at 31 December 2018	29,415,840	172,320	198,355	29,786,515
Arising from:				
Loans and advances	29,311,436	171,158	195,517	29,678,111
Trade bills, accrued interest and other receivables	104,404	1,162	2,838	108,404
	29,415,840	172,320	198,355	29,786,515

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK$240,591,000.

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

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

	30 June 2019 (Unaudited)			
	Stage 1 HK$'000	**Stage 2 HK$'000**	**Stage 3 HK$'000**	**Total HK$'000**
Internal rating grades:				
Performing				
Pass	**28,481,480**	**-**	**-**	**28,481,480**
Special mention	**190,088**	**202,019**	**-**	**392,107**
Non-performing				
Substandard	**-**	**-**	**123,625**	**123,625**
Doubtful	**-**	**-**	**62,667**	**62,667**
Loss	**-**	**-**	**3,579**	**3,579**
Total	**28,671,568**	**202,019**	**189,871**	**29,063,458**

	31 December 2018 (Audited)			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Internal rating grades:				
Performing				
Pass	29,299,412	-	-	29,299,412
Special mention	116,428	172,320	-	288,748
Non-performing				
Substandard	-	-	128,882	128,882
Doubtful	-	-	64,730	64,730
Loss	-	-	4,743	4,743
Total	29,415,840	172,320	198,355	29,786,515

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

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

	30 June 2019 (Unaudited)			
	Stage 1 HK$'000	**Stage 2 HK$'000**	**Stage 3 HK$'000**	**Total HK$'000**
As at 1 January 2019	**106,978**	**29,568**	**55,936**	**192,482**
New loans/financing originated	**54,143**	**5**	**14**	**54,162**
Loans/financing derecognised or repaid during the period (other than write-offs)	**(49,576)**	**(4,022)**	**(62,616)**	**(116,214)**
Transfer to 12-month expected credit loss (Stage 1)	**5,363**	**(743)**	**(4,620)**	**-**
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	**(2,323)**	**2,521**	**(198)**	**-**
Transfer to lifetime expected credit loss credit impaired (Stage 3)	**(4,242)**	**(23,572)**	**27,814**	**-**
Total transfer between stages	**(1,202)**	**(21,794)**	**22,996**	**-**
Impact on period end expected credit loss of exposures transferred between stages during the period	**(2,446)**	**31,182**	**113,136**	**141,872**
Movements due to changes in credit risk	**(304)**	**-**	**17,521**	**17,217**
Recoveries	-	**-**	**58,958**	**58,958**
Write-offs	-	**-**	**(150,385)**	**(150,385)**
Exchange differences	-	-	-	-
As at 30 June 2019	**107,593**	**34,939**	**55,560**	**198,092**
Arising from:				
Loans and advances	**105,709**	**34,932**	**55,474**	**196,115**
Trade bills, accrued interest and other receivables	**1,790**	**7**	**86**	**1,883**
Loan commitments	**91**	-	-	**91**
Financial guarantees and letters of credit	**3**	-	-	**3**
	107,593	**34,939**	**55,560**	**198,092**

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2018 (Audited)			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
As at 1 January 2018	103,097	33,042	53,144	189,283
New loans/financing originated	79,232	-	27	79,259
Loans/financing derecognised or repaid during the year (other than write-offs)	(67,240)	(7,765)	(141,227)	(216,232)
Transfer to 12-month expected credit loss (Stage 1)	4,070	(990)	(3,080)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(1,918)	2,242	(324)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(8,856)	(23,613)	32,469	-
Total transfer between stages	(6,704)	(22,361)	29,065	-
Impact on year end expected credit loss of exposures transferred between stages during the year	(2,019)	26,651	258,637	283,269
Movements due to changes in credit risk	618	1	21,360	21,979
Recoveries	-	-	135,192	135,192
Write-offs	-	-	(300,262)	(300,262)
Exchange differences	(6)	-	-	(6)
As at 31 December 2018	106,978	29,568	55,936	192,482
Arising from:				
Loans and advances	105,187	29,565	55,871	190,623
Trade bills, accrued interest and other receivables	1,689	3	65	1,757
Loan commitments	99	-	-	99
Financial guarantees and letters of credit	3	-	-	3
	106,978	29,568	55,936	192,482

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(g) Finance lease receivables

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

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

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

16. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Unlisted equity investments in corporate entity, at fair value:		
At the beginning and the end of the period/year	**6,804**	6,804

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

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

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

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

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

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

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

18. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Interest receivables from financial institutions	**46,786**	45,750
Other debtors, deposits and prepayments	**175,928**	152,101
Net amount of accounts receivables from Hong Kong Securities Clearing Company Limited ("HKSCC")	**24,738**	20,984
	247,452	218,835

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

Other liabilities

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Interest payable	**233,472**	188,965
Creditors, accruals and other payables	**253,664**	243,666
Net amount of accounts payable to HKSCC	**17,052**	12,369
	504,188	445,000

19. INTANGIBLE ASSETS

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Cost:		
At the beginning and the end of the period/year	**1,923**	1,923
Accumulated impairment:		
At the beginning and the end of the period/year	**1,205**	1,205
Net carrying amount:		
At the beginning and the end of the period/year	**718**	718

Intangible assets represent trading rights held by the Group. The trading rights are retained for stock trading and stockbroking activities, and have indefinite useful lives as the trading rights have no expiry date. They comprise five units (31 December 2018: five units) of Stock Exchange Trading Right and one unit (31 December 2018: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

20. PROPERTY AND EQUIPMENT

	Buildings (Unaudited) HK$'000	Leasehold improvement, furniture, fixtures, equipment and motor vehicles (Unaudited) HK$'000	Total (Unaudited) HK$'000
Cost:			
As at 1 January 2019	**20,666**	**298,130**	**318,796**
Transfer to investment properties	**(18)**	**-**	**(18)**
Additions	**-**	**30,460**	**30,460**
Disposals/write-off	**-**	**(853)**	**(853)**
As at 30 June 2019	**20,648**	**327,737**	**348,385**
Accumulated depreciation:			
As at 1 January 2019	**7,701**	**211,142**	**218,843**
Provided during the period	**224**	**12,557**	**12,781**
Transfer to investment properties	**(16)**	**-**	**(16)**
Disposals/write-off	**-**	**(731)**	**(731)**
As at 30 June 2019	**7,909**	**222,968**	**230,877**
Net carrying amount:			
As at 30 June 2019	**12,739**	**104,769**	**117,508**

20. PROPERTY AND EQUIPMENT (Continued)

	Buildings (Audited) HK$'000	Leasehold improvement, furniture, fixtures, equipment and motor vehicles (Audited) HK$'000	Total (Audited) HK$'000
Cost:			
As at 1 January 2018	18,443	267,222	285,665
Transfer to investment properties	(7)	-	(7)
Transfer from investment properties	2,230	-	2,230
Additions	-	33,088	33,088
Disposals/write-off	-	(2,180)	(2,180)
As at 31 December 2018	20,666	298,130	318,796
Accumulated depreciation:			
As at 1 January 2018	7,277	190,974	198,251
Provided during the year	430	22,337	22,767
Transfer to investment properties	(6)	-	(6)
Disposals/write-off	-	(2,169)	(2,169)
As at 31 December 2018	7,701	211,142	218,843
Net carrying amount:			
As at 31 December 2018	12,965	86,988	99,953

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

21. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
As at 1 January 2018 (Audited)	150,466
Transfer to investment properties	(125)
Transfer from investment properties	50,520
As at 31 December 2018 and 1 January 2019 (Audited)	**200,861**
Transfer to investment properties	**(305)**
As at 30 June 2019 (Unaudited)	**200,556**
Accumulated depreciation and impairment:	
As at 1 January 2018 (Audited)	49,646
Transfer to investment properties	(75)
Depreciation provided during the year	3,679
As at 31 December 2018 and 1 January 2019 (Audited)	**53,250**
Transfer to investment properties	**(185)**
Depreciation provided during the period	**1,851**
As at 30 June 2019 (Unaudited)	**54,916**
Net carrying amount:	
As at 30 June 2019 (Unaudited)	**145,640**
As at 31 December 2018 (Audited)	147,611

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

22. INVESTMENT PROPERTIES

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Carrying amount at the beginning of the period/year	**115,930**	111,692
Transfer to property and equipment	**-**	(2,230)
Transfer from property and equipment	**2**	1
Additions	**-**	47,100
Transfer to land held under finance leases	**-**	(50,520)
Transfer from land held under finance leases	**120**	50
Changes in fair value recognised in consolidated income statement	**18,562**	9,837
Carrying amount at the end of the period/year	**134,614**	115,930

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

All investment properties were classified under Level 3 in the fair value hierarchy. During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (31 December 2018: Nil). The Group has assessed that the highest and best use of its properties did not differ from their existing use.

As at 30 June 2019, investment properties were revalued according to the revaluation reports issued by C S Surveyors Limited, a firm of independent professionally qualified valuers. Finance and Control Department has discussions with the valuer on the valuation methodology and valuation results at least twice a year when the valuation is performed for interim and annual financial reporting.

22. INVESTMENT PROPERTIES (Continued)

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

	30 June 2019 (Unaudited)		31 December 2018 (Audited)	
	Range HK$	**Weighted average HK$**	Range HK$	Weighted average HK$
Price per square metre	**80,000 to 548,000**	**263,000**	82,000 to 527,000	269,000

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

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

23. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Demand deposits and current accounts	**4,723,899**	4,692,889
Savings deposits	**7,102,245**	6,809,824
Time, call and notice deposits	**23,470,105**	23,795,155
	35,296,249	35,297,868

24. SHARE CAPITAL

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Issued and fully paid:		
14,816,000 (2018: 14,816,000) ordinary shares	**2,854,045**	2,854,045

25. RESERVES

	Note	Group reconstruction reserve HK$'000	Capital reserve HK$'000	Regulatory Reserve# HK$'000	Retained profits HK$'000	Translation reserve HK$'000	Total HK$'000
As at 1 January 2018		3,065	17,660	312,619	2,378,287	58,995	2,770,626
Profit for the year		-	-	-	500,491	-	500,491
Other comprehensive income		-	-	-	-	(46,826)	(46,826)
Transfer from regulatory reserve to retained profits		-	-	(16,079)	16,079	-	-
Dividends paid in respect of previous year		-	-	-	(124,810)	-	(124,810)
Dividends paid in respect of current year		-	-	-	(124,321)	-	(124,321)
As at 31 December 2018 (Reported)		3,065	17,660	296,540	2,645,726	12,169	2,975,160
Impact of adopting HKFRS 16	5	-	-	-	**(6,594)**	-	**(6,594)**
Restated opening balance under HKFRS 16 as at 1 January 2019		**3,065**	**17,660**	**296,540**	**2,639,132**	**12,169**	**2,968,566**
Profit for the period		**-**	**-**	**-**	**247,020**	**-**	**247,020**
Other comprehensive income		**-**	**-**	**-**	**-**	**(1,209)**	**(1,209)**
Transfer from regulatory reserve to retained profits		**-**	**-**	**(76,738)**	**76,738**	**-**	**-**
Dividends paid in respect of previous year		**-**	**-**	**-**	**(115,520)**	**-**	**(115,520)**
As at 30 June 2019 (Unaudited)		**3,065**	**17,660**	**219,802**	**2,847,370**	**10,960**	**3,098,857**

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

26. OFF-BALANCE SHEET EXPOSURE

(a) Contingent liabilities, commitments and derivatives

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

			30 June 2019 (Unaudited)		
	Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	**25,570**	**25,570**	**21,084**	**-**	**-**
Transaction-related contingencies	**7,046**	**3,523**	**775**	**-**	**-**
Trade-related contingencies	**20,136**	**4,027**	**3,885**	**-**	**-**
Forward forward deposits placed	**126,910**	**126,910**	**25,382**	**-**	**-**
Forward asset purchases	**-**	**-**	**-**	**-**	**-**
	179,662	**160,030**	**51,126**	**-**	**-**
Derivatives held for trading :					
Foreign exchange rate contracts	**775,347**	**15,784**	**3,157**	**8,025**	**147**
Other commitments with an original maturity of:					
Not more than one year	**-**	**-**	**-**	**-**	**-**
More than one year	**-**	**-**	**-**	**-**	**-**
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	**2,939,468**	**-**	**-**	**-**	**-**
	3,894,477	**175,814**	**54,283**	**8,025**	**147**

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

26. OFF-BALANCE SHEET EXPOSURE (Continued)

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

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

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

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

26. OFF-BALANCE SHEET EXPOSURE (Continued)

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

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

As at 30 June 2019 and 31 December 2018, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

(b) Derivative financial instruments

The Group uses the following derivative financial instruments:

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

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

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

27. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties in note 22 under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

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

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Within one year	**3,016**	2,913
In the second to fifth years, inclusive	**1,661**	3,016
	4,677	5,929

(b) As lessee

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

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

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

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

	31 December 2018 (Audited) HK$'000
Within one year	68,987
In the second to fifth years, inclusive	52,637
Over five years	427
	122,051

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Fixed rate financial instruments

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

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

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

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

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

Level 2 financial instruments comprise forward foreign exchange contracts and currency swaps. These instruments have been measured at fair value based on the forward foreign exchange rates that are quoted in an active market. As at 30 June 2019 and 31 December 2018, the effects of discounting were considered insignificant for the Level 2 financial instruments.

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

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

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

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

There was no gain or loss and no OCI reported in the consolidated income statement and consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the period ended 30 June 2019 and the year ended 31 December 2018.

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

29. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

30 June 2019 (Unaudited)

	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Gross cash and short term placements	1,050,019	3,392,721	-	-	-	-	-	4,442,740
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	761,572	848,796	-	-	-	1,610,368
Gross loans and advances and receivables	1,407,257	2,560,947	938,787	3,086,048	6,850,594	14,029,954	189,871	29,063,458
Equity investments at fair value through other comphersive income	-	-	-	-	-	-	6,804	6,804
Gross held-to-collect debt securities at amortised cost	-	891,364	951,610	3,193,867	1,622,743	-	-	6,659,584
Other assets	262	104,097	20,456	48,814	8,325	-	65,498	247,452
Gross foreign exchange contracts	76,617	697,271	780	-	-	-	-	774,668
Total financial assets	2,534,155	7,646,400	2,673,205	7,177,525	8,481,662	14,029,954	262,173	42,805,074
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	58,661	469,570	60,000	110,000	-	-	-	698,231
Customer deposits at amortised cost	11,860,703	7,551,001	10,431,689	5,447,597	5,259	-	-	35,296,249
Lease liabilities	-	7,770	15,629	66,293	91,037	939	-	181,668
Other liabilities	6,547	160,187	86,744	98,199	99	-	152,412	504,188
Gross foreign exchange contracts	76,571	689,438	781	-	-	-	-	766,790
Total financial liabilities	12,002,482	8,877,966	10,594,843	5,722,089	96,395	939	152,412	37,447,126
Net liquidity gap	(9,468,327)	(1,231,566)	(7,921,638)	1,455,436	8,385,267	14,029,015	109,761	5,357,948

31 December 2018 (Audited)

	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Gross cash and short term placements	1,109,389	2,844,035	-	-	-	-	-	3,953,424
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	789,889	766,609	-	-	-	1,556,498
Gross loans and advances and receivables	1,092,373	3,110,246	957,392	2,963,317	6,725,923	14,738,909	198,355	29,786,515
Equity investments at fair value through other comphersive income	-	-	-	-	-	-	6,804	6,804
Gross held-to-collect debt securities at amortised cost	-	618,823	1,080,279	2,607,993	1,896,477	-	-	6,203,572
Other assets	123	73,497	16,736	60,616	10,020	-	57,843	218,835
Gross foreign exchange contracts	-	666,893	89,405	-	-	-	-	756,298
Total financial assets	2,201,885	7,313,494	2,933,701	6,398,535	8,632,420	14,738,909	263,002	42,481,946
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	82,592	230,120	240,000	20,000	-	-	-	572,712
Customer deposits at amortised cost	11,529,779	7,227,387	8,656,581	7,252,688	631,433	-	-	35,297,868
Other liabilities	4,114	119,376	30,183	82,919	39,556	-	168,852	445,000
Gross foreign exchange contracts	-	669,297	91,735	-	-	-	-	761,032
Total financial liabilities	11,616,485	8,246,180	9,018,499	7,355,607	670,989	-	168,852	37,076,612
Net liquidity gap	(9,414,600)	(932,686)	(6,084,798)	(957,072)	7,961,431	14,738,909	94,150	5,405,334

30. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

Risk management structure

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

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management

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

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

Market risk management

(a) Currency risk

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

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

As at 30 June 2019, if RMB had strengthened or weakened by 100 basis points against HKD with all other variables held constant, the Group's equity would have increased or decreased by HK$11 million (31 December 2018: HK$11 million) mainly as a result of foreign exchange impact arising from net structural position of RMB denominated operating capital.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(a) Currency risk (Continued)

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

	Spot assets HK$'million	**Spot liabilities HK$'million**	**Forward purchases HK$'million**	**Forward sales HK$'million**	**Net Long/(short) position HK$'million**	**Structural assets HK$'million**
As at 30 June 2019 (Unaudited)						
USD	**5,316**	**5,266**	**354**	**409**	**(5)**	**-**
RMB	**1,830**	**1,819**	**-**	**5**	**6**	**1,138**
AUD	**910**	**989**	**92**	**17**	**(4)**	**-**
NZD	**172**	**423**	**261**	**12**	**(2)**	**-**
Others	**541**	**541**	**25**	**25**	**-**	**-**
	8,769	**9,038**	**732**	**468**	**(5)**	**1,138**

	Spot assets HK$'million	Spot liabilities HK$'million	Forward purchases HK$'million	Forward sales HK$'million	Net long/(short) position HK$'million	Structural assets HK$'million
As at 31 December 2018 (Audited)						
USD	5,405	4,775	63	695	(2)	-
RMB	1,737	1,731	1	2	5	1,139
AUD	951	1,023	93	25	(4)	-
NZD	149	413	263	-	(1)	-
CAD	107	108	1	-	-	-
Others	276	427	157	6	-	-
	8,625	8,477	578	728	(2)	1,139

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(b) Price risk

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

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

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

Credit risk management

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

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

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

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

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management (Continued)

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

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

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

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

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

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

Liquidity risk management

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

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

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

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

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

The Group maintains sufficient liquidity cushion comprising mainly bills, notes or bonds issued by eligible central governments in total amount of not less than HK$1.5 billion to address critical and emergent liquidity needs on intraday basis and over other different time horizons. The Group is not subject to particular collateral arrangements or requirements in contracts in case there is a credit rating downgrade of entities within the Group.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

Regulatory liquidity ratios

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

	For the six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Liquidity Maintenance Ratio		
- Public Bank (Hong Kong) Group	**49.1%**	44.0%
- The Bank	**48.1%**	43.0%
- Public Finance	**65.7%**	59.3%
Core Funding Ratio		
- Public Bank (Hong Kong) Group	**132.3%**	N/A
- The Bank	**129.6%**	N/A

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

***Regulatory liquidity ratios* (Continued)**

The average liquidity maintenance ratio and core funding ratio are computed using the arithmetic mean of each calendar month's average ratio as reported in the return relating to the liquidity position submitted to the HKMA.

Liquidity exposures and funding needs are measured and assessed at the level of individual legal entities (i.e. the Bank and its core operating subsidiaries) and Mainland China Office (i.e. Shenzhen Branch and its sub-branches). Pursuant to the HKMA/SFC's requirements, the transferability of liquidity of the Bank and its operating subsidiaries takes into account the need of compliance with trigger points of liquidity related ratios and minimum liquidity capital level; and other legal and regulatory limitations such as limits of connected exposures and capital related ratios. Pursuant to the requirements of China Banking and Insurance Regulatory Commission, the Mainland China Office of the Bank is required to maintain regulatory liquidity ratios in RMB and foreign currencies of not less than 25%. Due to the foreign exchange controls imposed by the State Administration of Foreign Exchange ("SAFE") in China, cross-border funding flow to and from Mainland China is subject to the supervision and approval of SAFE. In view of the limitation on transferability of liquidity, Mainland China Office has maintained high and sufficient liquidity to meet its business needs. As at 30 June 2019, its liquidity ratios in RMB and foreign currencies of Shenzhen Branch were more than 100%.

Operational risk management

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

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

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

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

Capital adequacy ratios

The consolidated capital adequacy ratios of the Group are computed in accordance with the provisions of the Banking (Amendment) Ordinance 2012 relating to Basel III capital standards and the amended Capital Rules. The Group has adopted the standardised approach for the calculation of credit risk-weighted exposures and market risk-weighted exposures. The Group has adopted the basic indicator approach and the standardised approach for the calculation of operational risk-weighted exposures of the Bank and Public Finance, respectively.

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

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital disclosures

The components of capital base include the following items:

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
CET1 capital instruments	**2,854,045**	2,854,045
Retained earnings	**2,710,392**	2,516,840
Disclosed reserves	**234,422**	312,370
CET1 capital before deduction	**5,798,859**	5,683,255
Deduct:		
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	**(60,668)**	(42,107)
Regulatory reserve for general banking risk	**(219,802)**	(296,540)
Goodwill	**(242,342)**	(242,342)
Deferred tax assets in excess of deferred tax liabilities	**(27,407)**	(24,992)
CET1 capital after deduction	**5,248,640**	5,077,274
Additional Tier 1 capital	**-**	-
Tier 1 capital after deductions	**5,248,640**	5,077,274
Reserve attributable to fair value gains	**27,301**	18,948
Regulatory reserve for general banking risk	**219,802**	296,540
Collective provisions	**85,325**	10,719
	305,127	307,259
Tier 2 capital	**332,428**	326,207
Capital base	**5,581,068**	5,403,481
Total risk-weighted assets	**28,101,034**	28,184,838

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)
Capital management (Continued)
Capital conservation buffer (CCB)
The Group is subject to the 2.5% CCB ratio which has been phased-in from 2016. The applicable CCB ratio effective from 1 January 2019 is 2.5%.

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

The Group has reserved a capital buffer for the implementation of CCyB ratio, inclusive of CCyB ratio of 2.5%, to the private sector credit exposures in Hong Kong.

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

Jurisdiction ("J")	**Applicable JCCyB ratio in effect %**	**Total RWA used in computation of CCyB ratio HK$'000**	**CCyB ratio %**	**CCyB amount HK$'000**
As at 30 June 2019 (Unaudited)				
1. Hong Kong	**2.500**	**18,346,665**		
2. Mainland China	**-**	**2,034,439**		
Total		**20,381,104**	**2.250**	**458,667**

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Leverage ratio

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

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

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 2019 under "Regulatory Disclosures" section on the Bank's website at www.publicbank.com.hk on or before 30 September 2019.

Principal subsidiaries and basis of consolidation

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

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

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

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital instruments

To comply with the Banking (Disclosure) Rules, the Group will present all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group's published interim financial statements in the Regulatory Disclosure Statement for the position date of 30 June 2019 under "Regulatory Disclosures" section on the Bank's website at www.publicbank.com.hk on or before 30 September 2019.

The disclosure will include the following information:

- a description of the main features and full terms and conditions of the Group's capital instruments;

- a detailed breakdown of the Group's CET1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions, using the standard disclosure template as specified by the HKMA; and

- a full reconciliation between the Group's accounting and regulatory balance sheets, using the standard disclosure template as specified by the HKMA.

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

	Note	**30 June 2019 (Unaudited) HK$'000**	31 December 2018 (Audited) HK$'000
CET1 capital instruments issued by the Bank			
Ordinary shares:			
14,816,000 issued and fully paid ordinary shares	24	**2,854,045**	2,854,045

Pillar 3 disclosures

Further disclosures with respect to capital adequacy and risk management were shown in the Pillar 3 disclosures templates as required by the Banking (Disclosure) Rules. The Group will publish the Regulatory Disclosure Statement for the position date of 30 June 2019 under "Regulatory Disclosures" section on the Bank's website at www.publicbank.com.hk on or before 30 September 2019.

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 2019	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	**392,375**	**472**	**364**	**190**	**-**	**382,761**	**97.5**	**364**	**364**
Building and construction, property development and investment									
Property development	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Property investment	**6,174,820**	**618**	**73**	**100**	**-**	**6,174,785**	**100.0**	**11,460**	**7,669**
Civil engineering works	**225,908**	**200**	**-**	**71**	**-**	**135,016**	**59.8**	**-**	**-**
Electricity and gas	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Recreational activities	**26,480**	**9**	**-**	**2**	**-**	**26,197**	**98.9**	**-**	**-**
Information technology	**3,058**	**-**	**-**	**-**	**-**	**3,058**	**100.0**	**-**	**-**
Wholesale and retail trade	**278,917**	**762**	**82**	**303**	**-**	**226,924**	**81.4**	**82**	**82**
Transport and transport equipment	**4,522,632**	**4,689**	**2,857**	**138**	**30**	**4,341,389**	**96.0**	**8,602**	**8,450**
Hotels, boarding houses and catering	**105,228**	**103**	**-**	**2**	**-**	**101,823**	**96.8**	**-**	**-**
Financial concerns	**1,029,904**	**103**	**-**	**7**	**-**	**1,029,646**	**100.0**	**-**	**-**
Stockbrokers									
Margin lending	**422,650**	**42**	**-**	**22**	**-**	**352,650**	**83.4**	**-**	**-**
Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	**38,706**	**4**	**-**	**-**	**-**	**38,706**	**100.0**	**-**	**-**
Others	**249,650**	**43**	**-**	**12**	**-**	**249,650**	**100.0**	**-**	**-**
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	**40,636**	**4**	**-**	**-**	**-**	**40,636**	**100.0**	**-**	**-**
Loans for the purchase of other residential properties	**7,252,673**	**724**	**1**	**53**	**-**	**7,252,673**	**100.0**	**12,386**	**8,539**
Loans for credit card advances	**7,778**	**26**	**66**	**7**	**5**	**-**	**-**	**66**	**39**
Loans for other business purposes	**16,023**	**2**	**-**	**1**	**-**	**16,023**	**100.0**	**-**	**-**
Loans for other private purposes	**4,505,413**	**131,607**	**51,735**	**52,738**	**149,849**	**220,854**	**4.9**	**117,061**	**44,739**
Trade finance	**906,912**	**116**	**14**	**28**	**-**	**867,826**	**95.7**	**2,347**	**-**
Other loans and advances	**100,218**	**69**	**-**	**55**	**-**	**97,378**	**97.2**	**-**	**-**
Sub-total	**26,299,981**	**139,593**	**55,192**	**53,729**	**149,884**	**21,557,995**	**82.0**	**152,368**	**69,882**
Loans and advances for use outside Hong Kong	**2,638,191**	**1,048**	**282**	**420**	**501**	**2,595,717**	**98.4**	**34,032**	**28,502**
Total loans and advances (excluding trade bills and other receivables)	**28,938,172**	**140,641**	**55,474**	**54,149**	**150,385**	**24,153,712**	**83.5**	**186,400**	**98,384**

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(A) ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

	31 December 2018								
	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	492,056	517	-	144	23	479,807	97.5	-	-
Building and construction, property development and investment									
Property development	-	-	-	-	-	-	-	-	-
Property investment	6,609,583	660	3	206	-	6,609,583	100.0	6,565	2,632
Civil engineering works	226,345	225	-	140	-	134,382	59.4	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	129,458	19	-	8	-	129,080	99.7	-	-
Information technology	3,482	1	-	-	-	3,482	100.0	-	-
Wholesale and retail trade	264,157	813	31	525	-	224,122	84.8	31	31
Transport and transport equipment	4,597,741	3,191	2,833	454	326	4,328,075	94.1	8,772	8,460
Hotels, boarding houses and catering	144,088	132	-	117	-	139,860	97.1	-	-
Financial concerns	992,369	99	-	1	-	991,642	99.9	-	-
Stockbrokers									
Margin lending	433,582	43	-	38	-	433,582	100.0	-	-
Others	-	-	-	-	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	48,267	5	-	-	-	48,267	100.0	-	-
Others	130,231	35	-	8	-	130,231	100.0	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	44,923	5	-	-	-	44,923	100.0	-	-
Loans for the purchase of other residential properties	7,522,045	749	2	167	25	7,522,045	100.0	24,718	21,501
Loans for credit card advances	10,612	40	12	13	36	-	-	12	-
Loans for other business purposes	13,810	1	-	-	-	13,810	100.0	-	-
Loans for other private purposes	4,416,414	126,990	52,842	76,642	298,479	233,585	5.3	117,592	49,817
Trade finance	796,324	107	14	52	-	757,478	95.1	2,385	-
Other loans and advances	103,963	17	-	2	-	102,989	99.1	-	-
Sub-total	26,979,450	133,649	55,737	78,517	298,889	22,326,943	82.8	160,075	82,441
Loans and advances for use outside Hong Kong	2,698,661	1,103	134	704	1,373	2,623,252	97.2	35,442	27,482
Total loans and advances (excluding trade bills and other receivables)	29,678,111	134,752	55,871	79,221	300,262	24,950,195	84.1	195,517	109,923

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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(B) INTERNATIONAL CLAIMS

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

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

	Banks HK$'million	**Official sector HK$'million**	**Non-bank financial institutions HK$'million**	**Non-financial private sector HK$'million**	**Total HK$'million**
As at 30 June 2019					
1. Developed countries*	**1,990**	**6**	**-**	**485**	**2,481**
2. Offshore centres,	**1,558**	**3**	**317**	**3,066**	**4,944**
of which					
- Hong Kong	**1,098**	**3**	**120**	**2,205**	**3,426**
3. Developing					
Asia-Pacific,	**4,644**	**127**	**-**	**2,110**	**6,881**
of which					
- China	**2,766**	**127**	**-**	**2,040**	**4,933**

	Banks HK$'million	Official sector HK$'million	Non-bank financial institutions HK$'million	Non-financial private sector HK$'million	Total HK$'million
As at 31 December 2018					
1. Developed countries*	2,138	8	-	500	2,646
2. Offshore centres,	793	4	315	3,165	4,277
of which					
- Hong Kong	610	4	117	2,291	3,022
3. Developing					
Asia-Pacific,	4,146	86	-	1,371	5,603
of which					
- China	2,574	86	-	1,296	3,956

* There were no exposures to the five "PIIGs" countries namely Portugal, Italy, Ireland, Greece and Spain.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(C) MAINLAND ACTIVITIES

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

Types of counterparties	**On-balance sheet exposure HK$'million**	**Off-balance sheet exposure HK$'million**	**Total HK$'million**
As at 30 June 2019			
Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	**430**	**-**	**430**
People's Republic of China ("PRC") nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**502**	**945**	**1,447**
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**37**	**-**	**37**
Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	**1,818**	**-**	**1,818**
Total	**2,787**	**945**	**3,732**
Total assets after provision	**37,411**		
On-balance sheet exposures as percentage of total assets	**7.45%**		

Types of counterparties	On-balance sheet exposure HK$'million	Off-balance sheet exposure HK$'million	Total HK$'million
As at 31 December 2018			
Central government, central government-owned entities and their subsidiaries and JVs	348	-	348
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	545	948	1,493
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	40	-	40
Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	1,827	-	1,827
Total	2,760	948	3,708
Total assets after provision	37,103		
On-balance sheet exposures as percentage of total assets	7.44%		

Note:

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

BUSINESS PERFORMANCE

For the six months ended 30 June 2019, the Group recorded a profit after tax of HK$247.0 million, representing a decrease of HK$9.4 million or 3.7% as compared to the profit after tax of HK$256.4 million for the corresponding period in 2018. The decrease in earnings of the Group was attributed to the decrease in net interest income and increase in credit loss expense for the period under review.

During the period under review, the Group's total interest income increased by HK$72.7 million or 8.1% to HK$973.3 million, and total interest expense increased by HK$93.2 million or 51.7% to HK$273.6 million arising from the increase in funding cost of customer deposits in the period under review. Consequently, net interest income decreased by HK$20.5 million or 2.9% to HK$699.7 million.

Other operating income of the Group increased by HK$4.1 million or 3.6% to HK$116.3 million, mainly due to increase in foreign exchange earnings.

The Group's operating expenses increased by HK$2.1 million or 0.5% to HK$439.8 million mainly due to increase in IT system and other establishment costs in the period under review.

Credit loss expense increased by HK$12.5 million or 14.8% to HK$97.1 million mainly due to increase in impairment allowances for consumer financing loans and advances during the period under review. Impaired loans to total loans ratio decreased slightly by 0.02% to 0.64% as at 30 June 2019 from 0.66% as at 31 December 2018.

Gain in fair value of investment properties increased by HK$16.4 million during the period under review.

The Group's total loans and advances (including trade bills) decreased by HK$728.8 million or 2.5% to HK$28.98 billion as at 30 June 2019 from HK$29.71 billion as at 31 December 2018. The Group's deposits from customers declined slightly by HK$1.6 million and remained relatively the same at HK$35.30 billion as at 30 June 2019 as compared to the position of 31 December 2018. Total assets of the Group stood at HK$42.70 billion as at 30 June 2019.

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

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

18 July 2019