



2009

Annual Report

Corporate Information

Board of Directors

Tan Sri Dato' Sri Dr. Teh Hong Piow (Chairman)
Tan Sri Dato' Thong Yaw Hong (Co-Chairman)
Tan Yoke Kong
Chong Yam Kiang
Tan Sri Dato' Sri Tay Ah Lek
Dato' Chang Kat Kiam
Lee Chin Guan
Quah Poh Keat

Company Secretary

Chan Sau Kuen

Registered Office and Head Office

Public Bank Centre
120 Des Voeux Road Central
Hong Kong
Telephone : (852) 25419222
Facsimile : (852) 25410009
Website : www.publicbank.com.hk

Auditors

Ernst & Young
Certified Public Accountants

Legal Advisers

Gallant Y.T. Ho & Co.
Philip K H Wong, Kennedy Y H Wong & Co.
Siao, Wen and Leung
Charles Yeung Clement Lam Liu & Yip

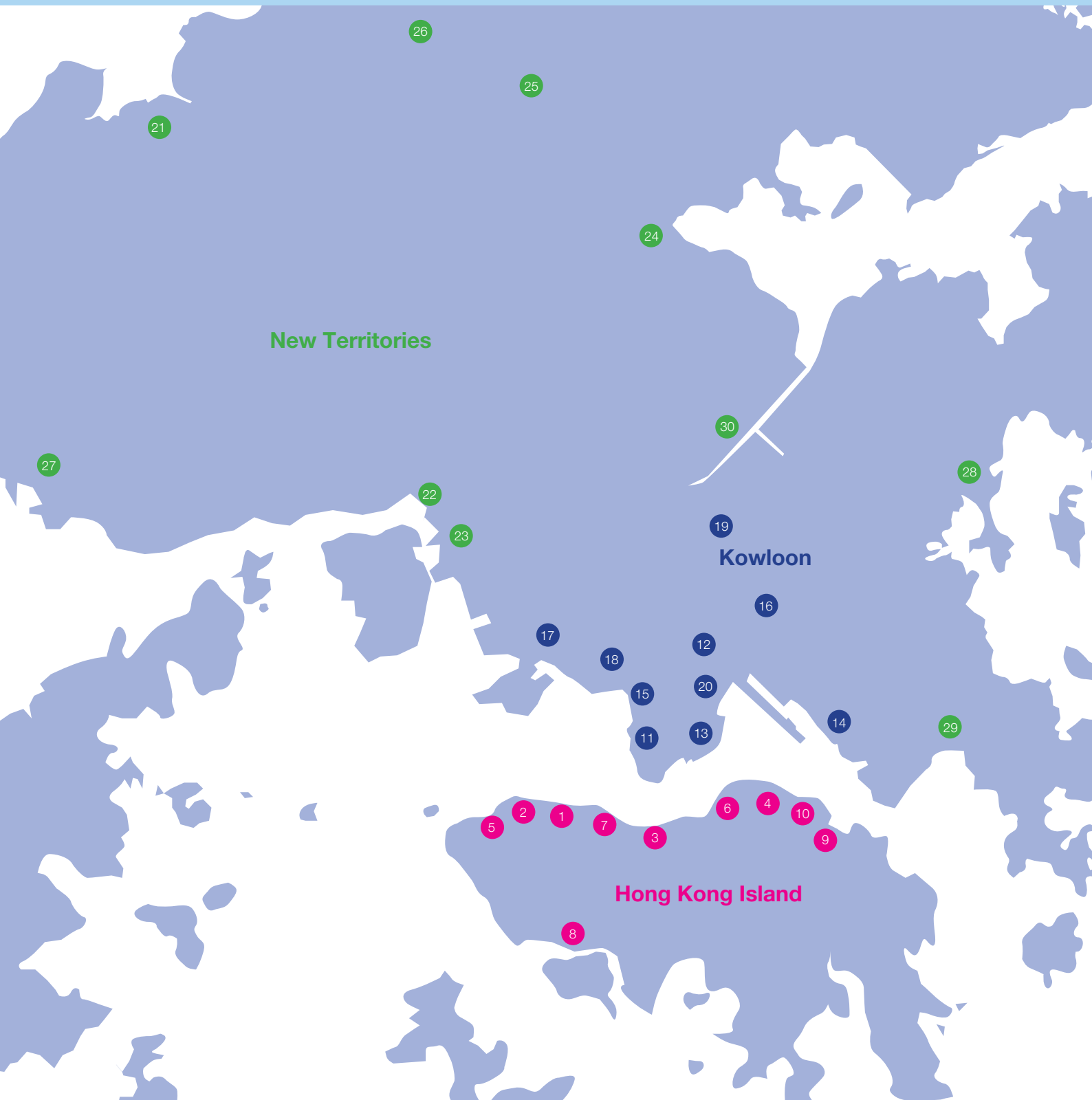
Principal Bankers

Bank of China
China Construction Bank
China Merchants Bank Co Limited
China Minsheng Banking Corp. Limited
CIMB Bank Berhad
Industrial Bank Company, Limited
Oversea-Chinese Banking Corporation Limited
Public Bank Berhad
Standard Chartered Bank
Tai Yau Bank Limited
The Bank of Tokyo-Mitsubishi UFJ Limited
The Hongkong and Shanghai Banking Corporation Limited
Wing Lung Bank Limited

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Branch Network



Head Office and Branches

Head Office
Public Bank Centre, 120 Des Voeux Road Central
Tel : 25419222
P.O. BOX : G.P.O. BOX 824
Website : www.publicbank.com.hk

Telex : 73085 CBHK HKHH
Fax : 25410009

Hong Kong Island

- 1 Main Branch
G/F, Public Bank Centre
120 Des Voeux Road Central
Tel: 25419222 Fax: 25452866
Manager: So Wai Ming, Aubrey
- 2 Western Branch
Shop 2-3, G/F, Kam Kwan Building
163-173 Des Voeux Road West
Tel: 28582220 Fax: 28582638
Manager: Lau Yiu Fai, Lawrence
- 3 Wanchai Commercial Centre
Unit A, 9/F, China Overseas Building
139 Hennessy Road, Wanchai
Tel: 28914171 Fax: 28341012
Manager: Luk Yau Tung, Denis
- 4 North Point Branch
Shop 2, G/F, Two Chinachem Exchange Square,
338 King's Road, North Point
Tel: 25686141 Fax: 25670655
Manager: Yam Oi Yin, Pauline
- 5 Shek Tong Tsui Branch
Shop B1, G/F, Hong Kong Plaza
369-375 Des Voeux Road West
Tel: 25462055 Fax: 25597962
Manager: Chan Hiu Fai, Addy
- 6 Causeway Bay Branch
G/F and M/F, 447 Hennessy Road
Causeway Bay
Tel: 25722363 Fax: 25723033
Manager: Leung Siu Ying, Fanny
- 7 Central Branch
Unit A, G/F, Wing On House
71 Des Voeux Road Central
Tel: 21472140 Fax: 21472244
Manager: Ngan Pui Shan, Sandy
- 8 Aberdeen Branch
Shop C, G/F, Kong Kai Building
184 Aberdeen Main Road, Aberdeen
Tel: 28710928 Fax: 28710383
Manager: Wong Chun Hoi, Wilson
- 9 Shau Kei Wan Branch
Shop 2, G/F, Hong Tai Building
326-332 Shaukeiwan Road
Tel: 28843993 Fax: 28859283
Manager: Wong Kai Ip, Jimmy
- 10 Quarry Bay Branch
Shop 8, G/F, Oceanic Mansion
1010-1026 King's Road, Quarry Bay
Tel: 28563880 Fax: 28560833
Manager: Chui King Yan, Connie

Kowloon

- 11 Yaumatei Branch
Shop 6, G/F, Wing Kiu Building
530-538 Nathan Road
Tel: 23811678 Fax: 23956398
Manager: Siu Kit Ching, Christina
- 12 Kowloon City Branch
G/F, 15 Nga Tsin Wai Road, Kowloon City
Tel: 23820147 Fax: 27184281
Manager: Law Kwan Yin, Philip
- 13 Hung Hom Branch
G/F, Hunghom Commercial Centre
37 Mei Tau Wai Road, Hung Hom
Tel: 23639213 Fax: 23633195
Manager: Lee Wai Kwan, Luceta
- 14 Kwun Tong Branch
Unit 2310, Tower 1, Millennium City 1
388 Kwun Tong Road, Kwun Tong
Tel: 23899119 Fax: 23899969
Manager: Kwok Ka Leung, Joe
- 15 Mongkok Branch
G/F, JCG Building, 16 Mongkok Road
Mongkok
Tel: 23918393 Fax: 23916909
Manager: Yeung Chun Kit, Kenneth
- 16 San Po Kong Branch
G/F, 92 Shung Ling Street, San Po Kong
Tel: 23268318 Fax: 23269180
Manager: Kwong Hon Wun, Peter
- 17 Cheung Sha Wan Branch
Unit C2, G/F, 746 Cheung Sha Wan Road
Cheung Sha Wan
Tel: 27869858 Fax: 27869506
Manager: Lai Siu Yee, Flora
- 18 Prince Edward Branch
G/F, 751 Nathan Road, Prince Edward
Tel: 23973830 Fax: 23971006
Manager: Leung Yuen Fan, Maggie
- 19 Wong Tai Sin Branch
Shop 841-642, 6/F,
Tsz Wan Shan Shopping Centre,
Wong Tai Sin
Tel: 23287332 Fax: 23287991
Manager: Lau Keung Fai, David
- 20 To Kwa Wan Branch
Shop D, G/F, In House, No. 307 To Kwa Wan Road
To Kwa Wan
Tel: 23620239 Fax: 23623999
Manager: Lo Pui Chun, Suray

New Territories

- 21 Yuen Long Branch
Shop No. 5, G/F, Fu Ho Building
3-7 Kau Yuk Road, Yuen Long
Tel: 24794265 Fax: 24733934
Manager: Lam Wong Kan, Kent
- 22 Tsuen Wan Branch
G/F, Victory Court, 185-187 Castle Peak Road
Tsuen Wan
Tel: 24904191 Fax: 24904811
Manager: Choi Kam Yee, Catalina
- 23 Kwai Chung Branch
Shop 88B of Trendy Place, 3/F, Kwai Chung Plaza,
7-11 Kwai Foo Road, Kwai Chung
Tel: 24900002 Fax: 24012367
Manager: Wong Sze Mui, Rhoda
- 24 Tai Po Branch
Shop B, G/F, 18-24 Kwong Fuk Road, Tai Po
Tel: 26572861 Fax: 26577389
Manager: Tsang Wai Chor
- 25 Fanling Branch
Shop 1, G/F, Wo Fung Court
8 Wo Fung Street, Luen Wo Market, Fanling
Tel: 26691559 Fax: 26698780
Manager: Kee Ka Wai
- 26 Sheung Shui Branch
G/F, 73 San Fung Avenue, Sheung Shui
Tel: 26390307 Fax: 31240091
Manager: Yan Yi Kam, Patrick
- 27 Tuen Mun Branch
Shop E, G/F, Kam Lai Building
Nos. 1-7 Kai Man Path, Tuen Mun
Tel: 24401298 Fax: 24401398
Manager: Fong Fung Mei, Marisa
- 28 Sai Kung Branch
G/F, 16 Yi Chun Street, Sai Kung
Tel: 27928588 Fax: 27910077
Manager: Chong Mei Kuen, Joe
- 29 Tseung Kwan O Branch
G105-106, G/F, Metro City Plaza 1, Tseung Kwan O
Tel: 27017688 Fax: 27017628
Manager: Lau Chi Kai, Thomas
- 30 Shatin Branch
Shop Nos. 4-6B, Lucky Plaza Commercial Centre, Shatin
Tel: 26016308 Fax: 26013686
Manager: So Tak Fai, Peter

Greater China

- 31 Shenzhen Branch
Shop No. 1, G/F, Carrianna Friendship Square
Renminnan Road, Shenzhen
People's Republic of China
Tel : (86-755) 2518 2822
Fax : (86-755) 2518 2327
Manager : Cheung Po Tung, David
- 32 Futian Sub-branch
1-3 Jinrun Mansion, No. 6019 Shennan Road
Futian District, Shenzhen
People's Republic of China
Tel : (86-755) 8280 0026
Fax : (86-755) 8280 0016
Manager : Cheung Ding Keung, Sammy
- 33 Shekou Sub-branch
Shop No. 155-156, Coastal Building (East Block)
Hai De San Dao, Nanshan District, Shenzhen
People's Republic of China
Tel : (86-755) 8627 1388
Fax : (86-755) 8627 0699
Manager : Pun Man Por
- Shenyang Representative Office
Unit A, 18/F, Sunwah I Hi-tech Building
No. 262 Shifu Road, Shenhe District, Shenyang
Liaoning Province, People's Republic of China
Tel : (86-24) 2279 1368
Fax : (86-24) 2279 1369
Representative : Li Yu Jie
- Shanghai Representative Office
Room G, 8/F Majesty Building
138 Pu Dong Avenue, Shanghai
People's Republic of China
Tel : (86-21) 5887 8851
Fax : (86-21) 5887 9951
Representative : Chen Li Hang
- Taipei Representative Office
Room 905, No. 18 Chan-An E. Road Section 1, Taipei, Taiwan
Tel : (886-2) 2563 8789
Fax : (886-2) 2564 2047
Representative : Lu Chia Nan, Deanna

Our Corporate Family

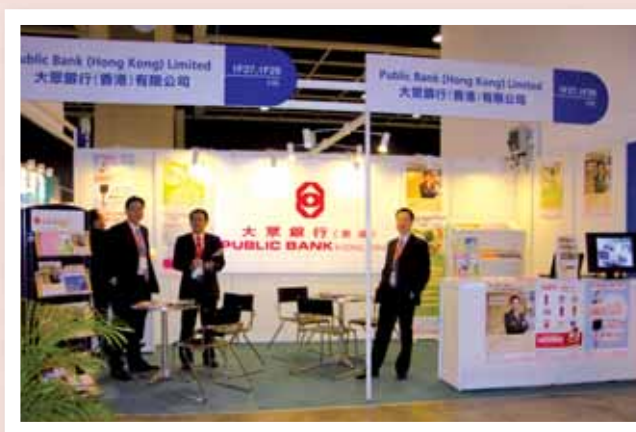
Corporate Events & Recreational Activities



Senior Management visited the booth of Public Bank (Hong Kong) at the World SME Expo held in the Hong Kong Convention Centre.



Senior Management of Public Bank, Malaysia at a business dialogue with the Heads of Business Units and Branch Managers during their visit to the Bank in October 2009.



The Bank participated in the World SME Expo.



Branch Managers and Heads of Business Units actively participated at the business dialogue.



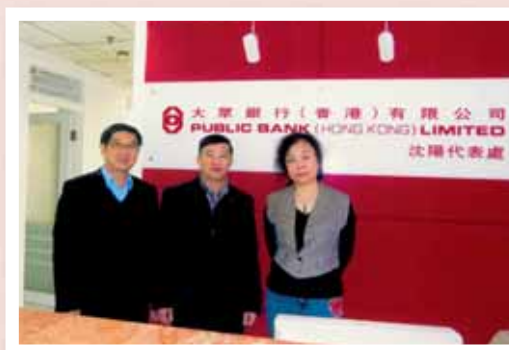
Opening of Public Bank (Hong Kong)'s 30th branch, Shatin Branch, in June 2009.



Senior Management of Public Bank (Hong Kong) paid a courtesy visit to the CBRC, Shenyang office in October 2009.



Group photo with the staff of Quarry Bay Branch at the opening of the new branch.



Executive Directors paid a visit to Public Bank (Hong Kong) Shenyang Representative Office in October 2009.

Our Corporate Family

Corporate Events & Recreational Activities



The Group Chairman, Tan Sri Dato' Sri Dr. Teh Hong Piow, accompanied by other members of the Board, cut the birthday cake in celebration of his 79th birthday in Hong Kong.

A poster gift of a Chinese character "Shou" which means longevity, and made of Hong Kong dollar notes, was presented by Mr. Tan Yoke Kong to Tan Sri Chairman at his birthday celebration dinner.



The staff performed "I will follow him" at the birthday dinner of Tan Sri Chairman.



A group photo taken with the staff performers.



Artist, Ms. Eliza Chan, entertaining the audience with her popular hits at the birthday dinner.



Mr. Tan Yoke Kong tossed the ball to start-off the inter-house basketball competition organised by the Sports Club of the Group.



The "Together we are the Best" team from Public Bank (Hong Kong) Group.



Staff and their family members enjoyed a pleasant trip during the Group's Annual Outing 2009 to Shenzhen.



Press conference organised by TVB to unveil the new TV programme sponsored by Public Bank (Hong Kong) at the Royal Plaza Hotel, Hong Kong.

Our Corporate Family Marketing and Promotions

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HK\$100,000 以上	0.25%

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優惠期長達 6 個月

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大東銀行(香港)「美化家居」私人貸款

屋企裝修稱心
家人笑容由心



- 每月平息低至**0.118%**
- 貸款額高達**HK\$1,000,000**
- 還款期長達**60個月**

還款期(月)	每月還款額	每月平息	每月還款額	每月平息
12	HK\$83,333	0.118%	HK\$83,333	0.118%
24	HK\$43,333	0.118%	HK\$43,333	0.118%
36	HK\$33,333	0.118%	HK\$33,333	0.118%
48	HK\$26,667	0.118%	HK\$26,667	0.118%
60	HK\$22,222	0.118%	HK\$22,222	0.118%

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Report of the Directors

The directors present their report and the audited financial statements of Public Bank (Hong Kong) Limited (the “Bank”) and its subsidiaries (the “Group”) for the year ended 31 December 2009.

Principal activities

The principal activities of the Group have not changed during the year and consisted of the provision of a comprehensive range of banking, financial and related services.

Results and dividends

The Group’s profit for the year ended 31 December 2009 and the state of affairs of the Bank and of the Group at that date are set out in the financial statements on pages 14 to 113.

The directors recommend the payment of a final dividend of HK\$5.895 (2008: Nil) per ordinary share for the year. No interim dividend (2008: Nil) was declared and paid during the year.

Property and equipment, land lease prepayments and investment properties

Details of movements in the property and equipment, land lease prepayments and investment properties of the Bank and of the Group during the year are set out in notes 22, 23 and 24 to the financial statements, respectively.

Share capital

There were no movements in either the Bank’s authorised or issued share capital during the year.

Reserves

Details of movements in the reserves of the Bank and of the Group during the year are set out in note 31 to the financial statements.

Directors

The directors of the Bank during the year and up to the date of this report were as follows:

Tan Sri Dato’ Sri Dr. Teh Hong Piow, *Chairman*
Tan Sri Dato’ Thong Yaw Hong, *Co-Chairman*
Tan Yoke Kong
Chong Yam Kiang
Tan Sri Dato’ Sri Tay Ah Lek
Dato’ Chang Kat Kiam
Lee Chin Guan
Quah Poh Keat
Dato’ Yeoh Chin Kee (resigned on 15 January 2009)

In accordance with Articles 105 and 106 of the New Articles of Association of the Bank, Mr. Tan Yoke Kong, Mr. Chong Yam Kiang and Tan Sri Dato’ Sri Tay Ah Lek, shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' rights to acquire shares

Pursuant to the employees' share option scheme of Public Financial Holdings Limited ("PFHL"), the Bank's immediate holding company, certain directors of the Bank have been granted options to subscribe for ordinary shares of PFHL.

During the year, the interests of the directors in any rights to subscribe for ordinary shares in PFHL were as follows:

Interests in	Name of director	Number of ordinary shares attached to the share options			At the end of the year	Exercise price	Exercise period
		At the beginning of the year	Granted/ (Exercised) during the year	Lapsed during the year			
PFHL	Tan Sri Dato' Sri Tay Ah Lek	1,230,000	–	–	1,230,000	HK\$6.35	10.6.2005 to 9.6.2015
	Lee Chin Guan	350,000	–	–	350,000	HK\$6.35	10.6.2005 to 9.6.2015
	Dato' Chang Kat Kiam	1,380,000	–	–	1,380,000	HK\$6.35	10.6.2005 to 9.6.2015
	Tan Yoke Kong	1,318,000	–	–	1,318,000	HK\$6.35	10.6.2005 to 9.6.2015
	Dato' Yeoh Chin Kee (Resigned on 15 January 2009)	550,000	–	550,000	–	HK\$6.35	10.6.2005 to 9.6.2015

Note: The options to subscribe for ordinary shares of HK\$0.10 each in PFHL under the Employees' Share Option Scheme of PFHL are only exercisable during certain periods as notified by its board or its Share Option Committee to each grantee which it may in its absolute discretion determine from time to time before the expiry of the share options on 9 June 2015.

Save as disclosed above, at no time during the year was the Bank, its immediate holding company and ultimate holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Bank's directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or in any other body corporate.

Directors' interests in contracts

Save as disclosed in note 35 to the financial statements, no director had a material interest, whether direct or indirect, in any contract of significance to the business of the Bank to which the Bank or any of its immediate holding company, ultimate holding company, subsidiaries and fellow subsidiaries was a party at the end of the reporting period or at any time during the year.

Compliance with Supervisory Policy Manuals

The Group has complied with the disclosure requirements of the "Guideline on the Application of the Banking (Disclosure) Rules" and "Corporate Governance of Locally Incorporated Authorised Institutions" under the Supervisory Policy Manuals issued by the Hong Kong Monetary Authority (the "HKMA"). The Bank has also complied with capital requirements related to capital base and capital adequacy ratio stipulated by the HKMA.

Report of the Directors

Donations

During the year, the Group made charitable donations totalling HK\$2,000 (2008: HK\$7,000).

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Bank will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Tan Sri Dato' Thong Yaw Hong

Director

Tan Yoke Kong

Director

Hong Kong

18 January 2010



To the shareholders of Public Bank (Hong Kong) Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Public Bank (Hong Kong) Limited (the "Bank") set out on pages 14 to 113, which comprise the consolidated and the Bank's statement of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated summary statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

18th Floor, Two International Finance Centre
8 Finance Street
Hong Kong

18 January 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
Interest income	5	1,455,691	1,044,422
Interest expense	5	(279,693)	(606,912)
NET INTEREST INCOME		1,175,998	437,510
Gains less losses from disposal of available-for-sale financial assets		9,699	–
Other operating income	6	221,095	164,121
OPERATING INCOME		1,406,792	601,631
Operating expenses	7	(585,896)	(339,669)
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		820,896	261,962
Impairment allowance in relation to the Lehman Brothers Minibonds repurchased		(42,962)	–
		777,934	261,962
Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale securities	8	(509,650)	(212,193)
Gain on disposal of properties		–	319,112
PROFIT BEFORE TAX		268,284	368,881
Tax	10	(21,113)	(3,431)
PROFIT FOR THE YEAR		247,171	365,450
ATTRIBUTABLE TO:			
Owners of the Bank	11	247,171	365,450

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009	2008
	HK\$'000	HK\$'000
PROFIT FOR THE YEAR	247,171	365,450
OTHER COMPREHENSIVE INCOME:		
Exchange (loss)/gain on translating foreign operations	(80)	13,660
Gain/(deficit) on revaluation of available-for-sale financial assets	11,379	(1,680)
Transfer to income statement for disposal of available-for-sale financial assets	(9,699)	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR	1,600	11,980
Note 1		
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	248,771	377,430
ATTRIBUTABLE TO:		
Owners of the Bank	248,771	377,430

Note:

1. There were no tax effects arising from "other comprehensive income" in years 2008 and 2009.

Statement of Financial Position

31 December 2009

	Notes	Group		Bank	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
ASSETS					
Cash and short term placements	12	5,573,943	5,753,218	5,473,558	5,859,622
Placements with banks and financial institutions maturing after one month but not more than twelve months	13	868,483	173,099	868,483	173,099
Derivative financial instruments	33	11,657	1,151	11,657	1,151
Loans and advances and receivables	14	24,238,565	24,184,317	20,172,245	20,005,481
Available-for-sale financial assets	16	6,804	21,524	6,804	6,804
Held-to-maturity investments	17	4,216,634	969,216	4,216,634	969,216
Interests in subsidiaries	18	–	–	1,755,997	1,758,250
Interests in a jointly-controlled entity	19	1,513	1,513	1,500	1,500
Deferred tax assets	29	13,367	4,279	11,443	2,979
Tax recoverable		17,275	14,452	16,825	11,677
Intangible assets	21	718	358	–	–
Property and equipment	22	72,760	69,898	59,489	57,705
Land lease prepayments	23	110,207	105,369	111,079	113,802
Investment properties	24	49,568	58,877	20,999	19,690
Goodwill	25	242,342	242,342	–	–
Other assets	20	441,429	235,308	587,540	149,692
Total assets		35,865,265	31,834,921	33,314,253	29,130,668
EQUITY AND LIABILITIES					
LIABILITIES					
Deposits and balances of banks and other financial institutions at amortised cost		1,024,628	641,732	1,760,262	1,596,902
Derivative financial instruments	33	1,668	4,150	1,668	4,150
Customer deposits at amortised cost	26	29,426,927	24,469,410	26,100,336	20,834,470
Certificates of deposit issued at amortised cost		–	879,850	–	879,850
Unsecured bank loans at amortised cost	27	–	1,099,219	–	1,099,219
Current tax payable		17,627	19,661	557	1,561
Deferred tax liabilities	29	6,942	12,958	6,541	10,667
Other liabilities	28	791,103	360,342	805,918	249,763
Total liabilities		31,268,895	27,487,322	28,675,282	24,676,582
EQUITY					
Issued capital	30	1,481,600	1,481,600	1,481,600	1,481,600
Reserves	31	3,114,770	2,865,999	3,157,371	2,972,486
Total equity		4,596,370	4,347,599	4,638,971	4,454,086
Total equity and liabilities		35,865,265	31,834,921	33,314,253	29,130,668

Tan Sri Dato' Thong Yaw Hong
Director

Tan Yoke Kong
Director

Chong Yam Kiang
Director

Consolidated Summary Statement of Changes in Equity

For the year ended 31 December 2009

	2009 HK\$'000	2008 HK\$'000
TOTAL EQUITY		
Balance at the beginning of the year	4,347,599	1,970,059
Profit for the year	247,171	365,450
Other comprehensive income	1,600	11,980
Total comprehensive income for the year	248,771	377,430
Proceeds from issuance of shares	-	2,000,110
Balance at the end of the year	4,596,370	4,347,599

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		268,284	368,881
Adjustments for:			
Dividend income from listed investments	6	(374)	–
Dividend income from unlisted investments	6	(980)	(981)
Amortisation and depreciation of land lease prepayments	7	23,764	15,732
Increase in fair value of investment properties	7	(7,291)	(1,530)
Increase in impairment allowances for loans and advances and receivables		84,153	86,162
Decrease in impairment allowances for held-to-maturity investments	17	–	(9,800)
Gains less losses from disposal of available-for-sale financial assets		(9,699)	–
Net loss/(gain) on disposal of property and equipment		45	(319,104)
Decrease in an amount due to the ultimate holding company		44	–
Exchange difference		(80)	13,718
Hong Kong profits tax (paid)/refunded		(41,074)	7,110
Overseas tax paid		–	(3,550)
Operating profit before changes in operating assets and liabilities		316,792	156,638
Increase in operating assets:			
(Increase)/decrease in cash and short term placements		(411,633)	195,025
(Increase)/decrease in placements with banks and financial institutions		(546,371)	33,394
Decrease in financial assets designated at fair value through profit or loss		–	12,262
(Increase)/decrease in derivative financial instruments		(10,506)	1,493
Increase in loans and advances and receivables		(138,400)	(4,723,462)
Decrease in held-to-maturity investments		159,607	978,548
(Increase)/decrease in other assets		(206,122)	206,992
		(1,153,425)	(3,295,748)
Increase/(decrease) in operating liabilities:			
Increase/(decrease) in deposits and balances of banks and other financial institutions at amortised cost		382,896	(1,622,170)
Increase in customer deposits at amortised cost		4,957,517	2,889,863
Decrease in certificates of deposit issued at amortised cost		(879,850)	(1,169,377)
(Decrease)/increase in derivative payables		(2,482)	1,769
Increase/(decrease) in other liabilities		430,717	(293,851)
		4,888,798	(193,766)
Net cash inflow/(outflow) from operating activities		4,052,165	(3,332,876)

	Notes	2009 HK\$'000	2008 HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		4,052,165	(3,332,876)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries		-	(1,382,574)
Purchases of property, equipment and land lease prepayments	22, 23	(22,809)	(77,085)
Sales proceeds of investment property, property and equipment		7,900	761,097
Purchase of intangible assets	21	(360)	-
Sales proceeds of available-for-sale financial assets		26,099	-
Dividends received from listed investments		374	-
Dividends received from unlisted investments		980	981
Net cash inflow/(outflow) from investing activities		12,184	(697,581)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares		-	2,000,110
New unsecured bank loan		-	1,024,219
Repayment of unsecured bank loans		(1,099,219)	-
Net cash (outflow)/inflow from financing activities		(1,099,219)	3,024,329
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,965,130	(1,006,128)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		5,974,726	6,980,854
CASH AND CASH EQUIVALENTS AT END OF YEAR		8,939,856	5,974,726
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand		725,539	293,820
Money at call and short notice with original maturity within three months		4,436,771	5,459,398
Placements with banks and financial institutions with original maturity within three months		183,102	34,089
Held-to-maturity investments with original maturity within three months		3,594,444	187,419
		8,939,856	5,974,726

Notes to Financial Statements

1. Corporate Information

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

Details of the principal activities of the Bank's subsidiaries are set out in note 18 to the financial statements.

The Bank is a wholly-owned subsidiary of PFHL. In the opinion of the directors, the ultimate holding company of the Bank is Public Bank Berhad ("PBB"), which was incorporated in Malaysia.

2.1 Accounting Policies

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("the HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. The preparation of financial statements has also made reference to applicable Supervisory Policy Manual and the Guideline on the Application of the Banking (Disclosure) Rules issued by the HKMA.

The consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of land lease prepayments and investment properties, available-for-sale financial assets, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at and for the year ended 31 December each year. The financial statements of the subsidiaries and a jointly-controlled entity are prepared for the same reporting year as the Group, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

The subsidiaries consolidated for accounting purposes and which are members of the Group are as follows:

- Public Finance Limited ("Public Finance"), Public Bank (Nominees) Limited, Public Investments Limited, Public Realty Limited, Public Credit Limited, Public Futures Limited, Public Pacific Securities Limited, Public Financial Securities Limited, Public Financial Limited, Public Securities Limited, Public Securities (Nominees) Limited and a jointly-controlled entity.

2.1 Accounting Policies (Continued)

Basis of capital disclosures

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

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

The computation of the consolidated capital adequacy ratio of the Group is based on the ratios of the aggregate of risk weighted exposures to the aggregate of capital bases of the Bank and Public Finance for regulatory purposes.

There are no major restrictions or impediments on the transfer of capital or funds among the members of the Bank's consolidation group except that liquidity, capital and other performance indicators of Public Financial Securities Limited and Public Securities Limited should satisfy the minimum requirements of Securities and Futures (Financial Resources) Rules issued by the Securities and Futures Commission of Hong Kong. A portion of retained earnings, based on a percentage of gross loans and advances, is set aside for non-distributable regulatory reserve as part of supplementary capital included in capital base pursuant to the HKMA capital requirements.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

The HKICPA has issued a number of new HKFRSs, HKASs and Interpretations ("Int"), which are generally effective for accounting periods beginning on or after 1 January 2009. The Group has adopted the following HKFRSs and HKASs issued up to 31 December 2009 which are pertinent to its operations and relevant to these financial statements.

- HKFRS 1 and HKAS 27 Amendments Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements
 - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- HKFRS 2 Amendments Amendments to HKFRS 2 Share-based Payment
 - Vesting Conditions and Cancellations
- HKFRS 7 Amendments Financial Instruments: Disclosures
- HKFRS 8 Operating Segments
- HKAS 1 (Revised) Presentation of Financial Statements
- HKAS 18 Amendments Revenue
- HKAS 23 (Revised) Borrowing Costs
- HKAS 32 and HKAS 1 Amendments Amendments to HKAS 32 Financial Instruments:
 - Presentation and HKAS 1 Presentation of Financial Statements
 - Puttable Financial Instruments and Obligations Arising on Liquidation
- HK(IFRIC)-Int 9 and HKAS 39 Amendments Reassessment of Embedded Derivative
- HK(IFRIC)-Int 13 Customer Loyalty Programmes
- HK(IFRIC)-Int 15 Agreements for the Construction of Real Estate
- HK(IFRIC)-Int 16 Hedges of a Net Investment in a Foreign Operation
- HK(IFRIC)-Int 18 Transfer of Assets from Customers

Notes to Financial Statements

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards (Continued)

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Amendments are effective for annual periods beginning on or after 1 January 2009 although there is separate transitional provision for each standard.

* Improvements to HKFRSs contain amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

HKAS 27 Amendments remove the definition of the cost method and require all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. HKFRS 1 Amendments allow first-time adopters of HKFRSs to measure its investments in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements.

HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only, both of which include a requirement for the counterparty to complete a specified period of service. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award of a share option does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments have had no impact on its accounting for share-based payments.

HKFRS 7 Amendments require additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balances is now required for Level 3 fair value measurement, as well as significant transfer between Level 1 and Level 2 fair value measurements. Further details of fair value of financial instruments are included in note 36 to the financial statements. The amendments also clarify the requirement for liquidity risk disclosures.

HKFRS 8 specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. Further details of segment information are included in note 4 to the financial statements.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements (including changes to the titles of the main statements). The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this revised standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. This revised standard also requires an entity to include three "statements of financial position" whenever the entity applies an accounting policy retrospectively or makes a retrospective restatement, or when it makes a reclassification. The revised standard does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards (Continued)

The Group has elected to present comprehensive income in two separate statements of income and comprehensive income. Information about the individual components of comprehensive income as well as the tax effects have been disclosed in the notes to the financial statements. The Group has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement, or retrospectively reclassified items in the financial statements.

HKAS 18 Amendments provides additional guidance to determine whether an entity is acting as principal or agent. The additional guidance is unlikely to have any financial impact on the Group.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current operation does not involve in acquisition, construction, or production of qualifying assets, the revised standard is unlikely to have any financial impact on the Group. In accordance with the transitional provisions in the revised standard, the Group applies the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no financial impact on the Group.

Amendments to HK(IFRIC)-Int 9 introduce new condition under which the Group should perform subsequent reassessment on whether embedded derivative should be separated from host contract.

In addition to a change in the terms of contract that significantly modified the cash flows that otherwise would have been required under the contract, the amendments require a subsequent reassessment to be performed when there is a reclassification of a financial asset out of the fair value through profit or loss category, which shall be made on the basis of the circumstances existed on the later date of: (a) when the entity first became a party to the contract; and a change in the terms of the contract; and (b) a change in the terms of contract that significantly modified the cash flows that otherwise would have been required under the contract. The amendments to the Interpretation have had no financial impact on the Group.

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no applicable customer loyalty award credits, the Interpretation is not applicable to the Group and therefore has had no financial impact on the Group.

HK(IFRIC)-Int 15 replaces HK Interpretation 3 Revenue – Pre-completion Contracts for the Sale of Development Properties and the current guidance for real estate. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 Construction Contracts or an agreement for the sale of goods or services in accordance with HKAS 18 Revenue. As the Group currently is not involved in any construction of real estate, the Interpretation has had no financial impact on the Group.

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment, the Interpretation has had no financial impact on the Group.

Notes to Financial Statements

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards (Continued)

HK(IFRIC)-Int 18 applies to accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. Under the scope of this Interpretation, the property, plant and equipment that the entities receive must be used either to connect the customers to a network or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the Interpretation has had no financial impact on the financial position or results of operations of the Group.

In October 2008, the HKICPA issued its first Improvements to HKFRSs which sets out 35 amendments to 20 HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. The Group adopted the following amendments to HKFRSs from 1 January 2009. There are separate transitional provisions for each standard. While the adoption of some of them may result in changes in accounting policy, none of these amendments are expected to have a material financial impact on the Group.

- (a) HKFRS 7 Financial Instruments: Disclosures: It removes the reference to “total interest income” as a component of finance costs.
- (b) HKAS 1 Presentation of Financial Statements: It clarifies that assets and liabilities classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the statement of financial position.
- (c) HKAS 10 clarifies that if dividends are declared (i.e., the dividends are appropriately authorised and no longer at the discretion of the entity) after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with HKAS 1 Presentation of Financial Statements.
- (d) HKAS 16 Property, Plant and Equipment: It replaces the term “net selling price” with “fair value less costs to sell” and the recoverable amount of property, plant and equipment is calculated as the higher of an asset’s fair value less costs to sell and its value in use.

In addition, items held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventories when rental ceases and they are held for sale.

- (e) HKAS 18 Revenue: It replaces the term “direct costs” with “transaction costs” as defined in HKAS 39 for recognition of revenue for financial service fees.
- (f) HKAS 27 Consolidated and Separate Financial Statements: It requires that when a parent entity accounts for a subsidiary at fair value in accordance with HKAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- (g) HKAS 28 Investment in Associates: It clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.
- (h) HKAS 36 Impairment of Assets: When discounted cash flows are used to estimate “fair value less cost to sell”, additional disclosure is required about the discount rate, which shall be consistent with disclosures required when the discounted cash flows are used to estimate “value in use”.
- (i) HKAS 40 Investment Property: It revises the scope such that property that is being constructed or developed for future as an investment property is classified as investment property.

Adoption of these new HKFRS interpretations did not have any material effect on the financial position or performance of the Group, nor resulted in restatement of comparative figures.

2.3 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards

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

• HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters ²
• HKFRS 1 (Revised)	First Time Adoption of Hong Kong Financial Reporting Standards ¹
• HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions ²
• HKFRS 3 (Revised)	Business Combinations ¹
• HKFRS 9	Financial Instruments ⁶
• HKAS 24 (Revised)	Related Party Disclosures ⁵
• HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
• HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues ³
• HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items ¹
• HK(IFRIC)-Int 14 Amendment	Prepayment of a Minimum Funding Requirement ⁵
• HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners ¹
• HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁴
• HK-Int 4 Amendment	Determination of Length of Lease Term in respect of Hong Kong Land Leases ²

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 which are effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard.

¹ effective for annual periods beginning on or after 1 July 2009

² effective for annual periods beginning on or after 1 January 2010

³ effective for annual periods beginning on or after 1 February 2010

⁴ effective for annual periods beginning on or after 1 July 2010

⁵ effective for annual periods beginning on or after 1 January 2011

⁶ effective for annual periods beginning on or after 1 January 2013

* Improvements to HKFRSs contains amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 18, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16.

HKFRS 1 Amendments address the retrospective application of HKFRSs to particular situations (such as exempt entities using full cost method from retrospective application of HKFRSs for oil and gas assets or existing leasing contracts from reassessing the classification of those contracts in accordance with HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease when the application of their other accounting requirement produced the same result) and are aimed at ensuring that entities applying HKFRSs will not face undue cost or effort in the transition process. The amendments are unlikely to have any financial impact on the Group.

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRS, the revisions are unlikely to have any financial impact on the Group.

2.3 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

HKFRS 2 Amendments clarify its scope and the accounting for group companies' cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction. The amendments are unlikely to have any financial impact on the Group.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. These changes, include, but are not limited to (i) introducing an option to measure non-controlling interests (currently minority interests) at fair value; (ii) recognising gains or losses from re-measuring to the fair value the interest in the acquiree held by the entity immediately before the business combination, in a step acquisition; (iii) expensing acquisition costs as incurred; (iv) recognising the fair value of contingent considerations at the acquisition date with subsequent changes generally reflected in the income statement; and (v) separately accounting for pre-existing relationships between the acquirer and acquiree. The amendments are unlikely to have any financial impact on the Group.

HKFRS 9 represents the completion of the first part of a three-part project to replace HKAS 39 Financial Instruments: Recognition and Measurement. HKFRS 9 uses business model and contractual cash flow characteristics to determine whether a financial asset is measured at amortised cost or fair value, replacing the four category classification in HKAS 39. The approach is also based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The Group expects to adopt HKFRS 9 from 1 January 2010.

HKAS 24 (Revised) simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Government-related entities are now defined as entities that are controlled, jointly-controlled or significantly influenced by the government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. It achieves this balance by requiring disclosure about these transactions only if they are significant. The amendments are unlikely to have any financial impact on the Group.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rate, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures. The amendments are unlikely to have any financial impact on the Group.

Amendments to HKAS 32 address the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendments contained in this update require that, provided that certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendments are unlikely to have any financial impact on the Group.

2.3 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment will have no financial impact on the Group, as the Group has not entered into any such hedges. The amendments are unlikely to have any financial impact on the Group.

The amendments to HK(IFRIC)-Int 14 requires entities to recognise as an economic benefit any prepayment of minimum funding requirement contributions. As the Group has no defined benefit scheme, the amendments are unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 17 standardises practice in the accounting for all non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the Interpretation from 1 January 2010 prospectively. This new interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 Events after the Reporting Period and HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. While the adoption of the Interpretation may result in changes in accounting policy, the Interpretation is unlikely to have any material financial impact on the Group.

HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are re-negotiated and resulted in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the Interpretation from 1 January 2011. As the Group has not re-negotiated the terms of a financial liability and issued equity instruments to settle the financial liability, the Interpretation is unlikely to have any material financial impact on the Group.

HK-Interpretation 4 was revised in December 2009 as a consequence of amendment to HKAS 17 made by Improvements to HKFRSs issued in May 2009. The amendment to HKAS 17 removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. The new guidance, paragraph 15A, indicates that entities should use judgment to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. A lease of land is therefore classified as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership to the lessee. Following this amendment, the scope of this Interpretation has been expanded to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of properties accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40. The Interpretation is unlikely to have any material financial impact on the Group.

In May 2009, the HKICPA issued Improvements to HKFRSs which set out amendments to HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. The Group expects to adopt the amendments to HKFRSs from 1 January 2010. There is separate transitional provision for each standard. While the adoption of some of them may result in changes in accounting policy, none of these amendments are expected to have a material financial impact on the Group.

HKFRS 2 Share-based Payment: It revises the scope that transaction in which entity acquires goods as part of the net assets acquired in a business combination, in a combination of entities or business under common controls, or the contribution of a business on the formation of a joint venture does not fall under the scope of this HKFRS.

2.3 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

HKFRS 5 Amendments clarify that an entity that is committed to a sale plan involving loss of control of a subsidiary shall have relevant disclosures when the subsidiary is a disposal group that meets the definition of a discontinued operation.

HKFRS 8 Operating Segments: It clarifies that a measure of total assets for each reportable segment should be reported only if such information is regularly provided to the chief operating decision maker.

HKAS 7 Statement of Cash Flows: It specifies that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities.

HKAS 17 Lease: It removes the previous classification on leases with both land and building elements and requires separate assessment of each element as a finance or an operating lease accordingly.

HKAS 36 Impairment of Assets: It clarifies that each unit or group of units to which the goodwill is so allocated should not be larger than an operating segment before aggregation.

HKAS 38 Intangible Assets: It introduces amendments to measurement of fair value of an intangible asset acquired in a business combination. Intangible asset acquired in business combination might be separable together with a related contract and identifiable liability in addition to identifiable asset. Additional consequential amendments to this HKAS arising from revised HKFRS 3 were also incorporated.

Amendment to HKAS 39 Financial Instruments: Recognition and Measurement: It 1) clarifies that prepayment option is considered closely related to the host contract when the exercise price of prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; 2) clarifies that this HKAS is not applicable to forward contract between acquirer and selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date; and 3) also replaces the term “assets acquired or liability assumed” under cash flow hedges with “hedged forecast cash flows”.

HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives: It revises the scope that this Interpretation does not apply to embedded derivatives in contracts acquired in a business combination, a combination of entities or businesses under common control, or the formation of a joint venture.

2.4 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

(1) Foreign currency translation

The consolidated financial statements are presented in Hong Kong dollars, which is the Group's functional and presentational currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the end of the reporting period. All differences are taken to "Other operating income" or "Other operating expenses" in the income statement with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity which is taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recorded in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at closing rate.

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Group's presentational currency at the rates of exchange ruling at the end of the reporting period, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement as part of gain or loss on disposal.

(2) Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Derivatives are recognised on trade date basis.

(ii) Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

2.4 Summary of Significant Accounting Policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(iii) Derivative financial instruments

Derivatives include interest rate swaps and futures, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held for trading are included in “Net gain or loss on derivative financial instruments”.

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host contract are carried at fair value in the trading portfolio with changes in fair value recognised in the income statement.

(iv) Financial assets designated at fair value through profit or loss

Financial assets classified in this category are held for trading or are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets, financial liabilities or both of which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in “Net gain or loss on financial assets designated at fair value through profit or loss”. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in “Other operating income” when the right to the payment has been established.

(v) Held-to-maturity investments

Held-to-maturity investments at amortised cost are those which carry fixed or determinable payments and have fixed maturity and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in “Interest income” in the income statement. The losses arising from impairment of such investments are recognised in the income statement as “Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale securities”.

2.4 Summary of Significant Accounting Policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(vi) Cash and short term placements, placements with banks and financial institutions, and loans and advances and receivables

Cash and short term placements, placements with banks and financial institutions, and loans and advances and receivables are categorised as loans and advances. They are carried at amortised cost and are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short term resale. After initial measurement, amounts due from banks and loans and advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in “Interest income” in the income statement. The losses arising from impairment are recognised in the income statement in “Impairment allowances for loans and advances and receivables”.

(vii) Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity investments or loans and advances. They include equity instruments, investments in mutual funds and money markets and other debt instruments.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the “Available-for-sale financial asset revaluation reserve”.

When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in “Other operating income” or “Other operating expenses”. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in, first-out basis. Interest earned whilst holding available-for-sale financial assets is reported as interest income using the effective interest rate method. Dividends earned whilst holding available-for-sale financial assets are recognised in the income statement as “Other operating income” when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in “Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale securities” and removed from the available-for-sale financial asset revaluation reserve.

(viii) Certificates of deposit

Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as liabilities under “Certificates of deposit issued at amortised cost” where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of compound financial instruments, that contain both liability and equity elements, are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

2.4 Summary of Significant Accounting Policies (Continued)

(3) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the assets, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its right to receive cash flows from the assets and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the new asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(4) Determination of fair value

The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include discounted cash flow analysis, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

2.4 Summary of Significant Accounting Policies (Continued)

(5) Impairment of financial assets

The Group assesses at each end of the reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the present value of estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, that it is possible that they will enter bankruptcy or other financial reorganisation and that there are observable data indicating a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with default.

(i) Placements with banks and financial institutions, and loans and advances and receivables

For amounts due from banks and loans and advances to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral had been realised or had been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. If a future write-off is later recovered, the recovery is credited to “Impairment losses and allowances” in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group’s internal credit risk-based system that considers credit risk characteristics such as asset type, industry, collateral type, economic factors and other relevant factors.

2.4 Summary of Significant Accounting Policies (Continued)

(5) Impairment of financial assets (Continued)

(i) Placements with banks and financial institutions, and loans and advances and receivables (Continued)

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Held-to-maturity investments

For held-to-maturity investments, the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to "Impairment allowances for held-to-maturity investments", to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(iii) Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each end of the reporting period whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement, is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of "Interest income". If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

2.4 Summary of Significant Accounting Policies (Continued)

(6) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item other than legal titles, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in "Property and equipment" with the corresponding liability to the lessor included in "Other liabilities". Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in "Interest expense" in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are not recognised in the statement of financial position. Any rentals payable are accounted for on a straight-line basis over the lease term and are included in "Operating expenses".

Land lease prepayments are stated at cost less accumulated amortisation and any impairment, and are amortised over the remaining lease terms on a straight-line basis to the income statement.

Medium term leases are leases with remaining lease period of more than 10 years but not more than 50 years. Long term leases are leases with remaining lease period of more than 50 years.

(ii) Group as a lessor

Leases where the Group remains substantially all the risks and benefits of ownership of the asset are classified as operating leases. The Group leases out all of its investment properties as operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and are recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

The amounts due from the lessees under finance leases are recorded in the statement of financial position as loans and advances to customers. The amount comprises the gross investment in the finance leases less gross earnings allocated to future accounting periods. The total gross earnings under finance leases are allocated to the accounting periods over the duration of the underlying agreements so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

2.4 Summary of Significant Accounting Policies (Continued)

(7) Recognition of revenue and expenditure

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as available-for-sale financial assets, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest income or expense.

Once the value of a financial asset or a group of similar financial assets had been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(a) *Fee income earned from services that are provided over a certain period of time*

Fees earned from the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(b) *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

(iii) Dividend income

Dividend income is recognised when the Group's right to receive the payment is established.

(iv) Net trading income

Net trading income arising from trading activities includes all gains and losses from changes in fair value for financial assets and financial liabilities held for trading. Gains and losses on foreign exchange trading and other transactions are also reported as "Net trading income" except for those gains and losses on translation of foreign currencies recognised in the translation reserve.

(v) Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the income statement as "Other operating income".

2.4 Summary of Significant Accounting Policies (Continued)

(8) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, and amounts due from banks on demand or with an original maturity period of three months or less.

(9) Business combinations and goodwill

Business combinations are accounted for using the purchase method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. When the recoverable amount is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed or subsequent increase in its recoverable amount in future periods.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Where goodwill forms part of a cash-generating unit (a group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortised goodwill is recognised in the income statement.

Goodwill previously eliminated for against consolidated retained profits

Goodwill arising on acquisition before 1 January 2001 was eliminated against the consolidated capital reserve in the year of acquisition. The Group applied the transitional provisions of HKFRS 3 that permitted such goodwill to remain eliminated against the consolidated capital reserve and that required such goodwill not to be recognised in the consolidated income statement when the Group disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired.

(10) Subsidiaries

A subsidiary is an entity in which the Bank, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Bank has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's interests in subsidiaries are stated at cost less any impairment losses.

2.4 Summary of Significant Accounting Policies (Continued)

(11) Joint venture companies and jointly-controlled entity

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the ventures, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Group has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interest in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. The Group's interest in a jointly-controlled entity is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of a jointly-controlled entity are included in the Group's income statement to the extent of dividends received and receivable. The Group's interest in a jointly-controlled entity is treated as non-current assets and is stated at cost less any impairment losses.

2.4 Summary of Significant Accounting Policies (Continued)

(12) Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its holding companies;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(13) Property and equipment, and depreciation

The building component of owner-occupied properties and other property and equipment, other than investment properties, is stated at cost, except for certain buildings transferred from investment properties, which are stated at deemed cost at the date of transfer, less accumulated depreciation and impairment. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful lives. The estimated useful lives are as follows:

- | | |
|---|------------------------|
| • Buildings | Remaining lease period |
| • Furniture, fixtures, equipment and motor vehicles | 3 to 10 years |

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.4 Summary of Significant Accounting Policies (Continued)

(14) Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property and equipment, and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation.

(15) Intangible assets

Intangible assets, representing eligibility rights to trade on or through Hong Kong Exchanges and Clearing Limited, are stated at cost less impairment at the end of the reporting period. The carrying amount of intangible assets is subject to an annual impairment test, and annual impairment, if any, is charged to the income statement.

(16) Impairment of non-financial assets

The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) the Group considered impaired is written down to its recoverable amount.

For assets excluding goodwill and deferred tax assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period it arises.

(17) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements in "Other liabilities" at fair value less transaction costs that are directly attributable to an acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement in "Impairment losses and allowances for financial guarantees". The premium received is recognised in the income statement in "Net fees and commission income" under other operating income on a straight line basis over the life of the guarantee.

2.4 Summary of Significant Accounting Policies (Continued)

(18) Repossessed assets and valuation of collateral

Collateral assets for loans and advances and receivables are repossessed by the Group when the borrowers are unable to service their repayments, and would be realised in satisfaction of outstanding debts. Advances with repossessed collateral assets will continue to be accounted for as customer advances, except for those where the Group has taken the legal title with control of the repossessed collateral assets, in which cases the repossessed assets are shown under other accounts at the predetermined value with a corresponding reduction in the related advances. Individual impairment allowance is made on the shortfall between the expected net realisable value of repossessed assets and the outstanding advances.

Collateral assets (including repossessed assets and assets not yet repossessed) are recognised at the lower of their carrying amount of the related loans and advances and receivables and fair value less costs to sell.

(19) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Operating expenses" in the income statement.

(20) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 Summary of Significant Accounting Policies (Continued)

(20) Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credit and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credit and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each end of the reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(21) Employee benefits

(a) Retirement benefit schemes

The Group participates in two defined contribution retirement benefit schemes for those employees who are eligible to participate. The assets of the schemes are held separately from those of the Group in independently administered funds.

Contributions are made based on a percentage of the participating employees' relevant monthly income from the Group, and are charged to the income statement as they become payable in accordance with the rules of the respective schemes. When an employee leaves the Occupational Retirement Scheme Ordinance Scheme prior to his/her interest in the Group's employer non-mandatory contributions vesting with the employee, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. When an employee leaves the Mandatory Provident Fund Retirement Benefit Scheme, the Group's mandatory contributions vest fully with the employee.

2.4 Summary of Significant Accounting Policies (Continued)

(21) Employee benefits (Continued)

(b) Share option scheme

PFHL operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the PFHL Group’s operations. Some employees (including directors) of the Group receive remuneration in the form of share-based payment transaction, whereby employees render services as consideration for equity-settled transactions.

For share options granted under the Scheme, the fair value of the employee’s services rendered in exchange for the grant of the options is recognised by the Group as an expense in the consolidated income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at the grant date. At each end of the reporting period, the PFHL Group revises its estimates of the number of options that are expected to become exercisable. The PFHL Group recognises the impact of the revision of the original estimates, if any, in the income statement, and a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

(c) Employee leave entitlements

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated as at the end of the reporting period.

(22) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within reserves in the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Bank’s New Articles of Association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

3. Significant Accounting Judgements and Estimates

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Held-to-maturity investments

The Group follows the guidance of HKAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances, it is required to reclassify the entire class of held-to-maturity investments to other appropriate classes of financial assets. The investments would then be measured at fair value and not at amortised cost.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment allowances on loans and advances and receivables, and held-to-maturity investments

The Group reviews its portfolios of loans and advances and receivables and held-to-maturity investments to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the discounted estimated future cash flows from a portfolio of loans and held-to-maturity investments before the decrease can be identified with an individual loan or held-to-maturity investment in those portfolios. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group.

For loans and advances and receivables for which no individual impairment is observed, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the loan portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was HK\$242,342,000 (2008: HK\$242,342,000). Further details are set out in note 25 to the financial statements.

4. 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 "Chief Operating Decision Maker" to make decisions about resource allocation to the segments and assess their performance. Summary details of the operating segments are as follows:

- the retail and commercial banking and lending 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;
- the wealth management services, stockbroking and securities management segment comprises management of investments in debts and equity securities, securities dealing and receipt of commission income and provision of authorised wealth management products and services; and
- other business segments comprise letting of investment properties.

The Group's inter-segment transactions during the year were mainly related to dealers' commission from referrals of taxi financing loans, and these transactions were entered into on similar terms and conditions as those contracted with third parties at the dates of the transactions.

Notes to Financial Statements

4. Segment Information (Continued)

The following tables represent revenue and profit information for operating segments for the year ended 31 December 2009 and 2008, and certain asset and liability information regarding operating segments as at 31 December 2009 and 2008.

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue								
Net interest income	1,175,938	437,510	60	-	-	-	1,175,998	437,510
Other operating income:								
Fees and commission income	114,181	59,413	84,218	79,247	-	-	198,399	138,660
Others	19,444	21,361	360	-	2,892	4,100	22,696	25,461
Profit on sale of available-for-sale financial assets	-	-	9,699	-	-	-	9,699	-
Operating income	1,309,563	518,284	94,337	79,247	2,892	4,100	1,406,792	601,631
Segment results	212,486	322,995	45,615	40,256	10,183	5,630	268,284	368,881
Share of profits and losses of a jointly-controlled entity							-	-
Profit before tax							268,284	368,881
Tax							(21,113)	(3,431)
Profit for the year							247,171	365,450
Segment assets other than interests in a jointly-controlled entity and intangible assets	34,890,689	31,214,897	649,793	298,203	49,568	58,877	35,590,050	31,571,977
Interests in a jointly-controlled entity	1,513	1,513	-	-	-	-	1,513	1,513
Intangible assets	-	-	718	358	-	-	718	358
Goodwill	242,342	242,342	-	-	-	-	242,342	242,342
Unallocated assets:	35,134,544	31,458,752	650,511	298,561	49,568	58,877	35,834,623	31,816,190
Deferred tax assets and tax recoverable							30,642	18,731
Total assets							35,865,265	31,834,921
Segment liabilities	30,661,541	27,297,134	526,033	155,142	56,752	2,427	31,244,326	27,454,703
Unallocated liabilities:							24,569	32,619
Deferred tax liabilities and tax payable								
Total liabilities							31,268,895	27,487,322
Other segment information								
Additions to non-current assets – capital expenditure	22,809	31,639	-	-	-	-	22,809	31,639
Amortisation and depreciation of land lease prepayments	23,764	15,732	-	-	-	-	23,764	15,732
Changes in fair value of investment properties	-	-	-	-	(7,291)	(1,530)	(7,291)	(1,530)
Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale securities	509,650	175,193	-	37,000	-	-	509,650	212,193
Net loss on disposal of property and equipment	45	8	-	-	-	-	45	8

4. Segment Information (Continued)

Geographical information

Over 90% of the Group's operating income, results, assets, liabilities, off-balance sheet commitments and exposures are derived from operations carried out in Hong Kong. Accordingly, no geographical segment information is presented in the financial statements.

Operating income or revenue from major customers

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

5. Interest Income and Expense

	2009	2008
	HK\$'000	HK\$'000
Interest income from:		
Loan and advances and receivables	1,354,351	769,173
Short term placements and placements with banks	47,920	167,626
Held-to-maturity investments	53,420	107,623
	1,455,691	1,044,422
Interest expense on:		
Deposits from banks and financial institutions	10,934	30,464
Deposits from customers	262,545	542,995
Bank Loans	6,214	14,417
Other borrowings	–	19,036
	279,693	606,912

The interest income for the year ended 31 December 2009 amounted to HK\$1,455,691,000 (2008: HK\$1,044,422,000) and interest expense for the year ended 31 December 2009 amounted to HK\$279,693,000 (2008: HK\$606,912,000) pursuant to the adoption of the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss. The interest income of the impaired loans and advances for the year ended 31 December 2009 amounted to HK\$10,645,000 (2008: HK\$4,942,000).

Notes to Financial Statements

6. Other Operating Income

	2009 HK\$'000	2008 HK\$'000
Fees and commission income:		
Retail and commercial banking	115,260	64,139
Wealth management services, stockbroking and securities management	84,218	75,698
	199,478	139,837
Less: Fees and commission expenses	(1,079)	(1,177)
Net fees and commission income	198,399	138,660
Net rental income	5,293	4,100
Gains less losses arising from dealing in foreign currencies	10,261	16,347
Net losses on derivative financial instruments	–	(3,263)
Losses on disposal of financial assets designated at fair value through profit or loss	–	(1,057)
Dividend income from listed investments	374	–
Dividend income from unlisted investments	980	981
Others	5,788	8,353
	221,095	164,121

There were no net gains or losses arising from held-to-maturity investments, loans and advances and receivables and financial liabilities at amortised cost for the years ended 31 December 2009 and 2008. There were also no net gains or losses on sale of available-for-sale financial assets transferred from equity and recognised in profit or loss for the years ended 31 December 2009 and 2008.

All fees and commission income and expense are related to financial assets or liabilities which are not designated at fair value through profit or loss. No fees and commission income and expense are related to trust and other fiduciary activities.

7. Operating Expenses

	Notes	2009 HK\$'000	2008 HK\$'000
Staff costs (including directors' remuneration, note 9):			
Salaries and other staff costs		283,311	171,978
Pension contributions		14,746	8,165
		298,057	180,143
Premises and equipment expenses:			
Minimum lease payments under operating leases in respect of buildings		44,456	19,203
Others		56,291	28,308
		100,747	47,511
Auditors' remuneration			
Depreciation of property and equipment, and amortisation of land lease prepayments	22, 23	23,764	15,732
Losses on disposal of property and equipment		45	8
Others		167,529	95,657
Operating expenses before changes in fair value of buildings and investment properties			
		593,187	341,199
Changes in fair value of investment properties	24	(7,291)	(1,530)
		585,896	339,669

As at 31 December 2009, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years (2008: Nil).

Notes to Financial Statements

8. Impairment Allowances

	2009 HK\$'000	2008 HK\$'000
Net charge for/(write-back of) impairment allowances:		
– Loans and advances	514,342	172,653
– Trade bills, accrued interest and receivables	(4,692)	2,540
	509,650	175,193
– Held-to-maturity investments	–	37,000
	509,650	212,193
Net charge for impairment allowances:		
– Individually assessed	479,086	202,640
– Collectively assessed	30,564	9,553
	509,650	212,193
Of which:		
– new impairment allowances (including any amount directly written off during the year)	626,373	237,778
– releases and recoveries	(116,723)	(25,585)
Net charge to the consolidated income statement	509,650	212,193

9. Directors' Remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2009 HK\$'000	2008 HK\$'000
Fees	779	749
Other emoluments	3,751	2,405
	4,530	3,154

10. Tax

	2009 HK\$'000	2008 HK\$'000
Current tax charge :		
Hong Kong	38,861	16,785
Elsewhere	3,905	915
Over-provisions in prior years	(6,549)	(2,173)
Deferred tax credit, net (Note 29)	(15,104)	(12,096)
	21,113	3,431

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries 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 rates for the locations in which the Bank, its subsidiaries and a jointly-controlled entity are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Hong Kong		2009 Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	243,840		24,444		268,284	
Tax at the applicable tax rate	40,234	16.5	4,889	20.0	45,123	16.8
Effect on change in tax rate	-	-	119	0.5	119	-
Estimated tax effect of net (income)/expenses that are not (taxable)/deductible	(1,698)	(0.7)	17	0.1	(1,681)	(0.6)
Estimated tax losses from previous periods utilised	(2,346)	(0.9)	-	-	(2,346)	(0.9)
Adjustments in respect of deferred tax of previous periods	(11,688)	(4.8)	(1,865)	(7.7)	(13,553)	(5.0)
Adjustments in respect of current tax of previous periods	(5,572)	(2.3)	(977)	(4.0)	(6,549)	(2.4)
Tax charge at the Group's effective rate	18,930	7.8	2,183	8.9	21,113	7.9

Notes to Financial Statements

10. Tax (Continued)

	Hong Kong		2008 Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	363,851		5,030		368,881	
Tax at the applicable tax rate	60,035	16.5	905	18.0	60,940	16.5
Effect on change in tax rate	(1,186)	(0.3)	–	–	(1,186)	(0.3)
Estimated tax effect of net (income)/expenses that are not (taxable)/deductible	(54,159)	(14.9)	10	0.2	(54,149)	(14.7)
Estimated tax losses from previous periods utilised	(3)	–	–	–	(3)	–
Estimated tax losses not recognised	2	–	–	–	2	–
Adjustments in respect of current tax of previous periods	(2,173)	(0.6)	–	–	(2,173)	(0.6)
Tax charge at the Group's effective rate	2,516	0.7	915	18.2	3,431	0.9

11. Profit Attributable to Owners of the Bank

The consolidated profit attributable to owners of the Bank for the year ended 31 December 2009 included a profit of HK\$184,965,000 (2008 : HK\$455,009,000) which has been dealt with in the financial statements of the Bank (Note 31).

12. Cash and Short Term Placements

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Cash in hand	122,177	129,486	107,167	113,761
Placements with banks and financial institutions	603,362	344,523	519,166	286,463
Money at call and short notice	4,848,404	5,279,209	4,847,225	5,459,398
	5,573,943	5,753,218	5,473,558	5,859,622

Over 90% of the placements are rated with grading of Baa2 or above based on the credit rating of an external credit agency, Moody's.

13. Placements with Banks and Financial Institutions Maturing after One Month but not more than Twelve Months

	Group and Bank	
	2009	2008
	HK\$'000	HK\$'000
Placements with banks and financial institutions	868,483	173,099

Over 90% of the placements were rated with grading of Baa2 or above based on the rating of an external credit agency, Moody's.

14. Loans and Advances and Receivables

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loans and advances to customers	24,366,397	24,235,271	20,215,232	20,033,392
Trade bills	70,286	50,861	70,286	50,861
Accrued interest	24,436,683	24,286,132	20,285,518	20,084,253
	69,682	84,051	25,885	39,662
Other receivables	24,506,365	24,370,183	20,311,403	20,123,915
	2,219	–	2,219	–
Gross loans and advances and receivables	24,508,584	24,370,183	20,313,622	20,123,915
Less: Impairment allowances for loans and advances and receivables				
– Individually assessed	(160,365)	(106,776)	(115,761)	(97,410)
– Collectively assessed	(109,654)	(79,090)	(25,616)	(21,024)
	(270,019)	(185,866)	(141,377)	(118,434)
Loans and advances and receivables	24,238,565	24,184,317	20,172,245	20,005,481

There were neither loans and advances to banks nor other accounts other than trade bills and accrued interest.

Over 90% of the loans and advances and receivables are unrated exposures. Collateral for the Group's and Bank's secured loans and advances and receivables include properties, cash, listed shares and taxi licences.

Notes to Financial Statements

14. Loans and Advances and Receivables (Continued)

(a)(i) Overdue and impaired loans and advances

	Group				Bank			
	2009		2008		2009		2008	
	Gross amount HK\$'000	Percentage of total loans and advances	Gross amount HK\$'000	Percentage of total loans and advances	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	175,146	0.72	183,440	0.76	74,503	0.37	106,594	0.53
One year or less but over six months	72,264	0.30	9,551	0.04	68,071	0.34	6,620	0.03
Over one year	103,731	0.42	12,843	0.05	103,731	0.51	12,843	0.07
Loans and advances overdue for more than three months	351,141	1.44	205,834	0.85	246,305	1.22	126,057	0.63
Rescheduled loans and advances overdue for three months or less	79,383	0.33	298	–	4,129	0.02	298	–
Impaired accounts overdue for three months or less	95,924	0.39	47,198	0.20	93,924	0.46	41,526	0.21
Total overdue and impaired loans and advances	526,448	2.16	253,330	1.05	344,358	1.70	167,881	0.84

(ii) Overdue and impaired trade bills, accrued interest and other receivables

	Group and Bank	
	2009 HK\$'000	2008 HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	2,492	3,251
One year or less but over six months	329	437
Over one year	3,573	2,113
Trade bills, accrued interest and other receivables overdue for more than three months	6,394	5,801
Impaired accounts overdue for three months or less	77	3,063
Total overdue and impaired trade bills, accrued interest and other receivables	6,471	8,864

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

14. Loans and Advances and Receivables (Continued)

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

2009

	Group			Bank		
	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue more than three months	226,702	130,833	357,535	121,866	130,833	252,699
Individual impairment allowances	68,385	37,739	106,124	63,791	37,739	101,530
Collective impairment allowances	72,375	-	72,375	-	-	-
Current market value and fair value of collateral			182,720			182,720
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	402,086	130,833	532,919	219,996	130,833	350,829
Individual impairment allowances	122,626	37,739	160,365	78,022	37,739	115,761
Collective impairment allowances	72,375	-	72,375	-	-	-
Current market value and fair value of collateral			262,374			262,374

Notes to Financial Statements

14. Loans and Advances and Receivables (Continued)

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

2008	Group			Bank		
	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue more than three months	151,357	60,278	211,635	71,580	60,278	131,858
Individual impairment allowances	66,650	16,311	82,961	57,284	16,311	73,595
Collective impairment allowances	50,455	–	50,455	–	–	–
Current market value and fair value of collateral			19,085			19,085
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	198,896	63,298	262,194	113,447	63,298	176,745
Individual impairment allowances	89,870	16,906	106,776	80,504	16,906	97,410
Collective impairment allowances	50,455	–	50,455	–	–	–
Current market value and fair value of collateral			31,371			31,371

Over 90% of the Group's gross loans and advances and receivables and their related impairment allowances are derived from operations carried out in Hong Kong. Accordingly, no geographical segment information is presented herein.

14. Loans and Advances and Receivables (Continued)

- (c) The value of collateral held in respect of its 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:

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	182,720	19,085	182,720	19,085
Covered portion of overdue loans and advances	91,885	7,624	91,885	7,624
Uncovered portion of overdue loans and advances	259,256	198,210	154,420	118,433

The eligibility of 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 government with grading of Aa3 or above
- Unrated public sector enterprises
- Banks with grading of Baa2 or above
- Unrated corporations
- Individual shareholders and directors of corporate customers

(d) Repossessed assets

As at 31 December 2009, the total value of repossessed assets of the Group amounted to HK\$25,715,000 (2008: Nil).

Notes to Financial Statements

14. Loans and Advances and Receivables (Continued)

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

	Group				Bank			
	2009		2008		2009		2008	
	Gross amount HK\$'000	Percentage of total loans and advances	Gross amount HK\$'000	Percentage of total loans and advances	Gross amount HK\$'000	Percentage of total loans and advances	Gross amount HK\$'000	Percentage of total loans and advances
Loans and advances overdue less than three months	470,044	1.93	710,828	2.93	261,872	1.30	428,405	2.14
Rescheduled but not impaired loans and advances	-	-	505	-	-	-	505	-
	470,044	1.93	711,333	2.93	261,872	1.30	428,910	2.14
Trade bills, accrued interest and other receivables overdue less than three months	2,375		6,939		2,375		6,939	

(f) Movements in impairment losses and allowances on loans and advances and receivables

2009

	Group			Bank		
	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000	Total HK\$'000	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000	Total HK\$'000
At 1 January 2009	106,776	79,090	185,866	97,410	21,024	118,434
Amounts written off	(534,132)	-	(534,132)	(78,358)	-	(78,358)
Impairment losses and allowances charged to the income statement	595,809	30,564	626,373	104,797	4,592	109,389
Impairment losses and allowances released to the income statement	(116,723)	-	(116,723)	(9,669)	-	(9,669)
Net charge of impairment losses and allowances	479,086	30,564	509,650	95,128	4,592	99,720
Loans and advances and receivables recovered	108,643	-	108,643	1,589	-	1,589
Exchange difference	(8)	-	(8)	(8)	-	(8)
At 31 December 2009	160,365	109,654	270,019	115,761	25,616	141,377
Deducted from:						
Loans and advances	158,751	109,218	267,969	114,147	25,180	139,327
Trade bills, accrued interest and other receivables	1,614	436	2,050	1,614	436	2,050
	160,365	109,654	270,019	115,761	25,616	141,377

14. Loans and Advances and Receivables (Continued)

(f) Movements in impairment losses and allowances on loans and advances and receivables (Continued)

2008	Individual	Group	Total	Individual	Bank	Total
	impairment allowances	Collective impairment allowances		impairment allowances	Collective impairment allowances	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008	27,554	17,059	44,613	27,554	17,059	44,613
Amounts written off	(114,141)	–	(114,141)	(29,190)	–	(29,190)
Impairment losses and allowances charged to the income statement	191,225	9,553	200,778	103,228	3,788	107,016
Impairment losses and allowances released to the income statement	(25,585)	–	(25,585)	(4,460)	–	(4,460)
Net charge of impairment losses and allowances	165,640	9,553	175,193	98,768	3,788	102,556
Loans and advances and receivables recovered	21,403	–	21,403	278	–	278
Acquisition of subsidiaries	6,320	52,301	58,621	–	–	–
Exchange difference	–	177	177	–	177	177
At 31 December 2008	106,776	79,090	185,866	97,410	21,024	118,434
Deducted from:						
Loans and advances	100,237	78,887	179,124	90,871	20,821	111,692
Trade bills, accrued interest and other receivables	6,539	203	6,742	6,539	203	6,742
	106,776	79,090	185,866	97,410	21,024	118,434

Notes to Financial Statements

14. Loans and Advances and Receivables (Continued)

(g) Finance lease receivables

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

2009

	Group		Bank	
	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	362,443	266,379	320,679	234,600
In the second to fifth years, inclusive	1,020,628	740,443	906,945	660,718
Over five years	3,218,630	2,559,516	2,828,169	2,234,150
	4,601,701	3,566,338	4,055,793	3,129,468
Less: Unearned finance income	(1,035,363)		(926,325)	
Present value of minimum lease payments receivable	3,566,338		3,129,468	

2008

	Group		Bank	
	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	471,633	372,781	420,907	332,373
In the second to fifth years, inclusive	922,666	654,543	795,021	558,140
Over five years	3,020,088	2,390,931	2,665,393	2,089,290
	4,414,387	3,418,255	3,881,321	2,979,803
Less: Unearned finance income	(996,132)		(901,518)	
Present value of minimum lease payments receivable	3,418,255		2,979,803	

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

15. Other Past Due and Rescheduled Assets

There were no other overdue or rescheduled advances to banks and other financial institutions or other assets (other than loans and advances and receivables and held-to-maturity investments) as at 31 December 2009 and 2008.

There were no impairment allowances for other assets (other than loans and advances and receivables, held-to-maturity investments, available-for-sale securities, Lehman Brothers Minibonds and intangible assets) as at 31 December 2009 and 2008, and no impairment allowances and losses were charged to the income statement for such other assets for the years ended 31 December 2009 and 2008.

16. Available-For-Sale Financial Assets

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Listed security investments in Hong Kong, at quoted market price:				
At the beginning of the year	14,720	–	–	–
Change in fair value	11,379	–	–	–
Disposals	(26,099)	–	–	–
Acquisition of subsidiaries	–	14,720	–	–
Sub-total	–	14,720	–	–
Unlisted equity investments, at fair value:				
At the beginning and at the end of the year	6,804	6,804	6,804	6,804
Total at the end of the year	6,804	21,524	6,804	6,804

The unlisted investment is measured at fair value based on present value of cash flows over a period of 10 years.

Notes to Financial Statements

17. Held-to-Maturity Investments

	Group and Bank	
	2009	2008
	HK\$'000	HK\$'000
Certificates of deposit held	812,130	40,000
Treasury bills (including Exchange Fund Bills)	499,746	319,721
Other debt securities	2,904,758	609,495
	4,216,634	969,216
Listed or unlisted:		
– listed in Hong Kong	–	19,994
– unlisted	4,216,634	949,222
	4,216,634	969,216
Analysed by type of issuers:		
– Central government	499,746	319,720
– Banks and other financial institutions	3,716,888	649,496
	4,216,634	969,216
Market value of listed held-to-maturity investments:		
– Hong Kong	–	20,214

Movements in impairment allowances of held-to-maturity investments

	Group and Bank	
	2009	2008
	HK\$'000	HK\$'000
Balance at the beginning of the year	–	9,800
Individual impairment allowances charged to income statement for the year	–	37,000
	–	46,800
Less: Amount written off	–	(46,800)
Balance at end of the year	–	–

There were neither impaired nor overdue held-to-maturity investments as at 31 December 2009 and 2008.

Over 90% of exposures attributed to the held-to-maturity investments are rated with grading of Baa2 or above based on the credit rating of an external credit agency, Moody's.

18. Interests in Subsidiaries

	Bank	
	2009	2008
	HK\$'000	HK\$'000
Unlisted shares, at cost	1,756,697	1,758,950
Provision for investment in subsidiaries	(700)	(700)
	1,755,997	1,758,250

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

Name	Nominal value of issued ordinary share capital HK\$	Percentage of equity attributable to the Bank	Principal activity
Public Financial Securities Limited	48,000,000	100	Securities brokerage
Public Bank (Nominees) Limited	100,000	100	Provision of nominee services
Public Investments Limited	200	100	Dormant
Public Realty Limited	100,000	100	Dormant
Public Credit Limited	5,000,000	100	Dormant
Public Futures Limited	2	100	Dormant
Public Pacific Securities Limited	12,000,000	100	Dormant
Public Finance Limited	258,800,000	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 Financial Statements

19. Interest in a Jointly-Controlled Entity

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Unlisted shares, at cost	–	–	1,500	1,500
Share of net assets other than goodwill	1,513	1,513	–	–
	1,513	1,513	1,500	1,500

Particulars of the Group's jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership, interest and profit sharing	Voting power	Principal activity
Net Alliance Co. Limited	Corporate	Hong Kong	17.6	2 out of 8*	Provision of electronic banking support services

* Representing the number of votes on the board of directors attributable to the Group

The following table illustrates the summarised financial information of the Group's interest in the jointly-controlled entity:

	2009 HK\$'000	2008 HK\$'000
Share of the jointly-controlled entity assets and liabilities:		
Assets	1,893	2,020
Liabilities	(380)	(507)
Net assets	1,513	1,513
Share of the jointly-controlled entity profits and losses:		
Total income	1,440	1,405
Total expenses	(1,440)	(1,405)
Profit/(loss) after tax	–	–

The financial statements of Net Alliance Co. Limited are coterminous with those of the Group. The most recent management financial statements of Net Alliance Co. Limited are used by the Group in applying the equity method.

20. Other Assets

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Interest receivables from authorised institutions	2,187	13,487	2,187	15,449
Other debtors, deposits and prepayments	439,242	221,821	585,353	134,243
	441,429	235,308	587,540	149,692

21. Intangible Assets

	Group	
	2009 HK\$'000	2008 HK\$'000
Cost:		
At the beginning of the year	1,563	1,437
Acquisition of subsidiaries	-	126
Addition	360	-
At the end of the year	1,923	1,563
Accumulated impairment:		
At the beginning of the year	1,205	1,205
Impairment recognised in the income statement during the year	-	-
At the end of the year	1,205	1,205
Net carrying amount:		
At the beginning of the year	358	232
Acquisition of subsidiaries	-	126
Addition	360	-
At the end of the year	718	358

The trading rights are retained for stock trading and stockbroking activities, and are of indefinite useful lives. They represent five units (2008: four units) of Stock Exchange Trading Right and one unit (2008: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

No intangible assets were held by the Bank as at 31 December 2009 and 2008.

Notes to Financial Statements

22. Property and Equipment

2009

	Group			Bank		
	Furniture, fixtures, equipment and motor			Furniture, fixtures, equipment and motor		
	Buildings HK\$'000	vehicles HK\$'000	Total HK\$'000	Buildings HK\$'000	vehicles HK\$'000	Total HK\$'000
At cost:						
At 1 January 2009	15,844	204,994	220,838	14,887	184,146	199,033
Additions	-	22,809	22,809	-	17,508	17,508
Transfer from investment properties	803	-	803	-	-	-
Disposals/write-off	-	(59,408)	(59,408)	-	(55,752)	(55,752)
At 31 December 2009	16,647	168,395	185,042	14,887	145,902	160,789
Accumulated depreciation:						
At 1 January 2009	3,831	147,109	150,940	3,254	138,074	141,328
Provided during the year	362	20,343	20,705	321	15,403	15,724
Disposals/write-off	-	(59,363)	(59,363)	-	(55,752)	(55,752)
Exchange difference	-	-	-	-	-	-
At 31 December 2009	4,193	108,089	112,282	3,575	97,725	101,300
Net book value:						
At 31 December 2009	12,454	60,306	72,760	11,312	48,177	59,489
At 31 December 2008	12,013	57,885	69,898	11,633	46,072	57,705

22. Property and Equipment (Continued)

2008

	Group			Bank		
	Buildings HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000	Buildings HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
At cost:						
At 1 January 2008	25,740	167,161	192,901	29,224	159,039	188,263
Additions	1,406	30,233	31,639	1,406	30,340	31,746
Disposals/write-off	(23,668)	(5,234)	(28,902)	(15,743)	(5,233)	(20,976)
Acquisition of subsidiaries	12,366	12,834	25,200	–	–	–
At 31 December 2008	15,844	204,994	220,838	14,887	184,146	199,033
Accumulated depreciation:						
At 1 January 2008	8,804	138,949	147,753	7,771	130,920	138,691
Provided during the year	562	13,363	13,925	567	12,357	12,924
Disposals/write-off	(5,570)	(5,226)	(10,796)	(5,119)	(5,226)	(10,345)
Exchange difference	35	23	58	35	23	58
At 31 December 2008	3,831	147,109	150,940	3,254	138,074	141,328
Net book value:						
At 31 December 2008	12,013	57,885	69,898	11,633	46,072	57,705
At 31 December 2007	16,936	28,212	45,148	21,453	28,119	49,572

Notes to Financial Statements

23. Land Lease Prepayments

	Group HK\$'000	Bank HK\$'000
Cost:		
At 1 January 2008	179,057	211,953
Additions	45,446	45,446
Acquisition of subsidiaries	267,296	–
Disposals	(366,765)	(125,706)
At 31 December 2008 and 1 January 2009	125,034	131,693
Transfer from investment properties	7,897	–
At 31 December 2009	132,931	131,693
Accumulated amortisation and impairment:		
At 1 January 2008	20,696	18,485
Provided during the year	1,807	1,791
Disposals	(2,838)	(2,385)
Exchange difference	–	–
At 31 December 2008 and 1 January 2009	19,665	17,891
Provided during the year	3,059	2,723
Exchange difference	–	–
At 31 December 2009	22,724	20,614
Net carrying amount:		
At 31 December 2009	110,207	111,079
At 31 December 2008	105,369	113,802

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Net book value:				
Medium term leases	103,021	98,175	98,638	101,347
Long term leases	7,186	7,194	12,441	12,455
	110,207	105,369	111,079	113,802

24. Investment Properties

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Carrying amount at 1 January	58,877	17,900	19,690	17,900
Acquisition of subsidiaries	–	99,407	–	–
Disposals	(7,900)	(59,960)	–	–
Transfer to owner-occupied property	(8,700)	–	–	–
Carrying amount before change in fair value	42,277	57,347	19,690	17,900
Change in fair value (Note 7)	7,291	1,530	1,309	1,790
Carrying amount at 31 December	49,568	58,877	20,999	19,690

On 31 December 2009, investment properties with a carrying amount of HK\$42,277,000 were revalued at HK\$49,568,000 based on the revaluation report issued by C S Surveyors Limited, a firm of independent professionally qualified valuers, on an open market value, existing use basis. The increase in the fair value of HK\$7,291,000 (2008: HK\$1,530,000) resulting from the above valuation has been credited to the income statement. The investment properties are leased to third parties under operating lease, further details of which are included in Note 34(a) to the financial statements.

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

Notes to Financial Statements

25. Goodwill

	Group	
	2009 HK\$'000	2008 HK\$'000
Cost:		
At the beginning of the year	242,342	–
Additions	–	242,342
At the end of the year	242,342	242,342

Impairment test of goodwill

There is a cash-generating unit (the “CGU”) namely Public Finance Limited which represents an operating entity within the business segment “Retail and commercial banking and lending businesses” identified by the Group. The recoverable amount of the CGU at each subsequent reporting date is determined based on the value in use using the present value of cash flows. The cash flow projections are based on financial budgets approved by management covering a 10-year period and assumed growth rates are used to extrapolate the cash flows in the following 40 years. The financial budgets are prepared based on 10-year business plan which is appropriate after consideration of sustainability of business growth, stability of core business developments, long term economic cycle and achievement of business targets extrapolated from track record of financial results. All cash flows are discounted at a discount rate of 2% to 6%. Management’s financial model assumes an average of growth rates from 6% to 7% per annum from the eleventh to fiftieth year taking into account long term gross domestic product growth and other relevant economic factors. The discount rates used is based on the rate which reflects specific risks relating to the CGU.

No impairment loss has been recognised in respect of goodwill for the years ended 31 December 2009 and 2008 as its value in use exceeds the carrying amount.

26. Customer Deposits at Amortised Cost

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Demand deposits and current accounts	1,387,207	913,456	1,473,432	971,483
Savings deposits	5,938,346	2,988,709	5,938,570	2,988,933
Time, call and notice deposits	22,101,374	20,567,245	18,688,334	16,874,054
	29,426,927	24,469,410	26,100,336	20,834,470

27. Unsecured Bank Loans at Amortised Cost

	Group and Bank	
	2009	2008
	HK\$'000	HK\$'000
Unsecured bank loans	-	1,099,219
Repayable: within one year	-	1,099,219

The unsecured bank loans were denominated in Hong Kong dollars. The carrying amounts of the unsecured bank loans bore interest at floating interest rates and at prevailing market rates.

28. Other Liabilities

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest payable	40,736	112,374	34,235	89,740
Creditors, accruals and other payables	750,367	247,968	638,866	137,626
Due to subsidiaries	-	-	132,817	22,397
	791,103	360,342	805,918	249,763

The amounts due to subsidiaries included in the Bank's other liabilities were unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements

29. Deferred Tax

The movements in deferred tax assets and liabilities during the year were as follows:

Group – 2009

Deferred tax assets

	Impairment allowances for loans and advances HK\$'000
At 1 January 2009	4,279
Effect of change in tax rates charged to income statement	–
Deferred tax credited to the income statement during the year	9,088
Deferred tax assets at 31 December 2009	13,367

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK\$'000	Revaluation of investment properties HK\$'000	Total HK\$'000
At 1 January 2009	9,831	3,127	12,958
Effect of change in tax rates charged to income statement	119	–	119
Deferred tax (credited)/charged to the income statement during the year	(7,338)	1,203	(6,135)
Deferred tax liabilities at 31 December 2009	2,612	4,330	6,942

29. Deferred Tax (Continued)

Bank – 2009

Deferred tax assets

	Impairment allowances for loans and advances HK\$'000
At 1 January 2009	2,979
Effect of change in tax rates charged to income statement	–
Deferred tax credited to the income statement during the year	8,464
Deferred tax assets at 31 December 2009	11,443

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK\$'000	Revaluation of investment properties HK\$'000	Total HK\$'000
At 1 January 2009	7,540	3,127	10,667
Effect of change in tax rates charged to income statement	119	–	119
Deferred tax (credited)/charged to the income statement during the year	(4,461)	216	(4,245)
Deferred tax liabilities at 31 December 2009	3,198	3,343	6,541

Notes to Financial Statements

29. Deferred Tax (Continued)

Group – 2008

Deferred tax assets

	Impairment allowances for loans and advances HK\$'000
At 1 January 2008	2,950
Acquisition of subsidiaries	1,018
Effect of change in tax rates charged to income statement	(227)
Deferred tax credited to the income statement during the year	538
Deferred tax assets at 31 December 2008	4,279

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK\$'000	Revaluation of investment properties HK\$'000	Total HK\$'000
At 1 January 2008	6,010	2,823	8,833
Acquisition of subsidiaries	15,910	–	15,910
Effect of change in tax rates charged to income statement	(1,252)	(161)	(1,413)
Deferred tax (credited)/charged to the income statement during the year	(10,837)	465	(10,372)
Deferred tax liabilities at 31 December 2008	9,831	3,127	12,958

29. Deferred Tax (Continued)

Bank – 2008

Deferred tax assets

	Impairment allowances for loans and advances HK\$'000
At 1 January 2008	2,950
Effect of change in tax rates charged to income statement	(169)
Deferred tax credited to the income statement during the year	198
Deferred tax assets at 31 December 2008	2,979

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK\$'000	Revaluation of investment properties HK\$'000	Total HK\$'000
At 1 January 2008	8,256	2,823	11,079
Effect of change in tax rates charged to income statement	(472)	(161)	(633)
Deferred tax charged/(credited) to the income statement during the year	(244)	465	221
Deferred tax liabilities at 31 December 2008	7,540	3,127	10,667

Notes to Financial Statements

30. Share Capital

	Bank	
	2009	2008
	HK\$'000	HK\$'000
Authorised:		
20,000,000 (2008: 20,000,000) ordinary shares of HK\$100 each	2,000,000	2,000,000

	Number of ordinary shares of HK\$100 each		Share capital	
	2009	2008	2009	2008
			HK\$'000	HK\$'000
Issued and fully paid:				
At 1 January	14,816,000	8,100,000	1,481,600	810,000
Shares issued	-	6,716,000	-	671,600
At 31 December	14,816,000	14,816,000	1,481,600	1,481,600

31. Reserves

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Share premium:				
At 1 January	1,372,445	43,935	1,372,445	43,935
Issue of shares	-	1,328,510	-	1,328,510
At 31 December	1,372,445	1,372,445	1,372,445	1,372,445
Group reconstruction reserve:				
At 1 January and 31 December	3,065	3,065	-	-
Translation reserve :				
At 1 January	35,060	21,400	35,060	21,400
Exchange difference	(80)	13,660	(80)	13,660
At 31 December	34,980	35,060	34,980	35,060
General reserve:				
At 1 January	-	232,640	-	230,640
Transfer to retained profits	-	(232,640)	-	(230,640)
At 31 December	-	-	-	-
Capital reserve:				
At 1 January and 31 December	17,660	17,660	3,660	3,660
Regulatory reserve (Note):				
At 1 January	304,551	137,123	202,403	137,123
Transfer (to)/from retained profits	(38,170)	167,428	(2,378)	65,280
At 31 December	266,381	304,551	200,025	202,403
Available-for-sale financial assets revaluation reserve:				
At 1 January	(1,680)	-	-	-
Change in fair value recognised directly in equity	11,379	(1,680)	-	-
Transfer to income statement for disposal	(9,699)	-	-	-
At 31 December	-	(1,680)	-	-

Notes to Financial Statements

31. Reserves (Continued)

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Retained profits:				
At 1 January	1,134,898	704,236	1,358,918	738,549
Net profit for the year	247,171	365,450	184,965	455,009
Transfer from general reserve	-	232,640	-	230,640
Transfer to/(from) regulatory reserve	38,170	(167,428)	2,378	(65,280)
At 31 December	1,420,239	1,134,898	1,546,261	1,358,918
Total:				
At 1 January	2,865,999	1,160,059	2,972,486	1,175,307
At 31 December	3,114,770	2,865,999	3,157,371	2,972,486

Note: In accordance with the HKMA's guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reserve" (the "Guideline"), the regulatory reserve and the Bank's collective impairment allowance were included as supplementary capital in the Group's capital base at 31 December 2009 as defined in the Guideline. The regulatory reserve is held as a buffer of capital to absorb potential financial losses in excess of requirements of accounting standards pursuant to the direction of the HKMA.

32. Loans to Directors and Officers

Loans granted by the Bank to directors and officers disclosed pursuant to Section 161B (9) and (10) of the Hong Kong Companies Ordinance were as follows:

	Group and Bank	
	2009 HK\$'000	2008 HK\$'000
Aggregate amount of principal and interest outstanding at the end of the year	244	237
Maximum aggregate amount of principal and interest outstanding during the year	848	782

The loans to directors and officers are granted on essentially the same terms with those granted to other customers, and/or at prevailing market rates and have no fixed terms of repayment.

33. Off-Balance Sheet Exposure

(a) Contingent liabilities and commitments and derivatives

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

Group – 2009

	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	256,225	256,225	50,611	-	-
Transaction-related contingencies	2,653	1,327	197	-	-
Trade-related contingencies	100,655	20,131	16,203	-	-
Forward forward deposits placed	186,651	186,651	37,330	-	-
Forward asset purchases	21,570	21,570	4,314	-	-
	567,754	485,904	108,655	-	-
Derivatives held for trading (Note 33 (b)):					
Foreign exchange rate contracts	1,542,301	25,920	59	11,657	1,668
Interest rate swaps	-	-	-	-	-
	1,542,301	25,920	59	11,657	1,668
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	185,230	92,615	92,615	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,677,481	-	-	-	-
	4,972,766	604,439	201,329	11,657	1,668
Capital commitment:					
Contracted, but not provided for in the financial statements	6,723				

Notes to Financial Statements

33. Off-Balance Sheet Exposure (Continued)

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

Bank – 2009

	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	256,225	256,225	50,611	-	-
Transaction-related contingencies	2,653	1,327	197	-	-
Trade-related contingencies	100,655	20,131	16,203	-	-
Forward forward deposits placed	186,651	186,651	37,330	-	-
Forward asset purchases	21,570	21,570	4,314	-	-
	567,754	485,904	108,655	-	-
Derivatives held for trading (Note 33(b)):					
Foreign exchange rate contracts	1,542,301	25,920	59	11,657	1,668
Interest rate swaps	-	-	-	-	-
	1,542,301	25,920	59	11,657	1,668
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	185,230	92,615	92,615	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,837,326	-	-	-	-
	5,132,611	604,439	201,329	11,657	1,668
Capital commitment:					
Contracted, but not provided for in the financial statements	5,406				

33. Off-Balance Sheet Exposure (Continued)

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

Group – 2008

	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	313,464	313,464	99,130	–	–
Transaction-related contingencies	3,238	1,619	563	–	–
Trade-related contingencies	70,505	14,101	9,195	–	–
Forward forward deposits placed	8,596	8,596	1,719	–	–
Forward asset purchases	23,346	23,346	4,669	–	–
	419,149	361,126	115,276	–	–
Derivatives held for trading (Note 33 (b)):					
Foreign exchange rate contracts	1,925,319	15,988	68	1,151	4,150
Interest rate swaps	–	–	–	–	–
	1,925,319	15,988	68	1,151	4,150
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	259,096	129,548	129,548	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,952,542	–	–	–	–
	6,556,106	506,662	244,892	1,151	4,150
Capital commitment:					
Contracted, but not provided for in the financial statements	5,183				

Notes to Financial Statements

33. Off-Balance Sheet Exposure (Continued)

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

Bank – 2008

	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	313,464	313,464	99,130	–	–
Transaction-related contingencies	3,238	1,619	563	–	–
Trade-related contingencies	70,505	14,101	9,195	–	–
Forward forward deposits placed	8,596	8,596	1,719	–	–
Forward asset purchases	23,346	23,346	4,669	–	–
	419,149	361,126	115,276	–	–
Derivatives held for trading (Note 33(b)):					
Foreign exchange rate contracts	1,925,319	15,988	68	1,151	4,150
Interest rate swaps	–	–	–	–	–
	1,925,319	15,988	68	1,151	4,150
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	259,096	129,548	129,548	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,862,402	–	–	–	–
	6,465,966	506,662	244,892	1,151	4,150
Capital commitment :					
Contracted, but not provided for in the financial statements	5,183				

33. Off-Balance Sheet Exposure (Continued)

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

The Group and the Bank 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 Third Schedule of the Banking Ordinance and guidelines issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments and from 0% to 50% for exchange rate contracts.

As at 31 December 2009 and 2008, the Group and the Bank had no other material outstanding contingent liabilities and commitments save as disclosed above.

(b) Derivative financial instruments

The Group uses the following derivative 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 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 and the Bank'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 and the Bank assess counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the 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 and the Bank's exposure to credit or price risk. The derivative 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 instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

Notes to Financial Statements

34. Operating Lease Arrangements

(a) As lessor

The Group and the Bank lease their investment properties (Note 24) under operating lease arrangements, and the terms of the leases range from one to five years.

At 31 December 2009, the Group and the Bank had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Within one year	2,269	2,167	2,806	1,369
In the second to fifth years, inclusive	524	1,499	2,433	870
	2,793	3,666	5,239	2,239

(b) As lessee

The Group and the Bank entered into non-cancellable operating lease arrangements with landlords, and the terms of the leases ranged from one to five years.

At 31 December 2009, the Group and the Bank had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Within one year	67,123	56,279	37,977	21,552
In the second to fifth years, inclusive	34,270	33,471	18,546	16,023
	101,393	89,750	56,523	37,575

35. Related Party Transactions

The Bank had the following material transactions with related parties in the normal course of business. In addition to those disclosed elsewhere in the financial statements, the details of related party transactions, related expenses and income for the year and outstanding balances as at the year end were as follows:

	Notes	Group 2009 HK\$'000	2008 HK\$'000
Related party transactions included in the income statement:			
Management fees from the ultimate holding company	(a)	241	55
Management fees from the immediate holding company	(a)	306	720
Management fees from fellow subsidiaries	(a)	418	43
Management fees to the immediate holding company	(a)	3,135	2,857
Rental income from the ultimate holding company	(b)	211	134
Rent paid to the ultimate holding company	(c)	–	420
Rent paid to the immediate holding company	(c)	24,782	3,000
Rent paid to fellow subsidiaries	(c)	–	698
Interest income from the ultimate holding company	(d)	20,818	28,797
Interest income from key management personnel	(e)	6	3
Interest paid to the ultimate holding company	(f)	275	5,235
Interest paid to the immediate holding company	(f)	417	21,375
Interest paid to fellow subsidiaries	(f)	24,088	27,357
Interest paid to key management personnel	(f)	2	657
Commission fee income from key management personnel	(f)	35	–
Commission and service fee paid to a fellow subsidiary	(g)	539	228
Building management fee from fellow subsidiaries	(c)	–	22
Building management fee to the immediate holding company	(c)	82	–
Key management personnel compensation:			
Short-term employee benefits	(h)	3,746	578
Post employment benefits	(h)	186	26
Post employment benefits for employees other than key management personnel	(h)	14,560	1,358
Gain on disposal of property and equipment, land lease prepayments and investment properties to the immediate holding company	(j)	–	319,112

Details of compensation for key management personnel, which are the directors of the Bank, are included in note 9 to the financial statements.

Notes to Financial Statements

35. Related Party Transactions (Continued)

	Notes	Group		Bank	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Related party transactions included in the assets and liabilities:					
Cash and short term funds with the ultimate holding company	(d)	736,218	1,937,677	735,842	1,937,510
Deposits and placements with financial institution with the ultimate holding company	(d)	620,408	–	620,408	–
Interest receivable from the ultimate holding company	(d)	541	393	541	393
Deposits from the ultimate holding company	(f)	344,820	63,968	344,820	63,968
Deposits from the immediate holding company	(f)	39,089	277,391	39,089	127,391
Deposits from fellow subsidiaries and an affiliated company	(f)	505,753	2,275,747	505,753	1,795,747
Customer deposits from key management personnel	(f)	18,421	22,598	18,421	22,598
Interest payable to the ultimate holding company	(f)	6	119	6	119
Interest payable to the immediate holding company	(f)	–	1,583	–	1
Interest payable to fellow subsidiaries	(f)	211	30,751	211	27,936
Interest payable to key management personnel	(f)	2	22	2	22
Loans to key management personnel	(e)	752	834	56	16
Rental deposits from the ultimate holding company	(b)	–	47	–	–
Rental deposits from a fellow subsidiary	(b)	44	–	44	–
Rental deposits to the immediate holding company	(c)	1,233	500	1,090	500
Rental deposits to a fellow subsidiary	(c)	–	299	–	128
Interest and other payables to a fellow subsidiary included in other liabilities	(i)	–	53	–	–
Amounts due from the immediate holding company included in other assets	(i)	733	–	733	–
Amounts due from a fellow subsidiary included in other assets	(i)	7,587	729	5,757	–

35. Related Party Transactions (Continued)

Notes:

- (a) The management fees arose from administrative services provided by the ultimate holding company, immediate holding company and fellow subsidiaries to the Group in 2009. They were charged based on cost incurred by the ultimate holding company, immediate holding company and fellow subsidiaries during the year.
- (b) The rental income and deposits were derived from properties leased to the ultimate holding company as its staff quarters and office in 2008. The rental deposit were derived from a property to a fellow subsidiary as its office during the year.
- (c) The rent paid, rental deposits and building management fee were derived from properties rented from the ultimate holding company, the immediate holding company and fellow subsidiaries as the Bank's offices during the year.
- (d) The Group and the Bank placed deposits with the ultimate holding company. Interest was received/receivable from the ultimate holding company. The balances of the said deposits and interest receivable were included in cash and short term placements and other assets, respectively, in the statement of financial position.
- (e) These balances represented a mortgage loan granted to a director of Public Finance and credit card receivables due from directors of the Bank. Interest income was received in respect of the mortgage loan.
- (f) The ultimate holding company, immediate holding company, fellow subsidiaries, an affiliated company and key management personnel placed deposits with the Group and the Bank at the prevailing market rates. Interest expense/payables were paid by the Group and the Bank for the year in respect of these placements. The balances were included in customer deposits in the statement of financial position.
- (g) The expenses represented commission paid and service fee for the referrals of taxi financing loans from a fellow subsidiary during the year.
- (h) Post employment benefit plan for the benefit of employees paid by one of the subsidiaries.
- (i) These balances include other receivables and payables to a fellow subsidiary.
- (j) During the year 2008, the Bank's holding company, PFHL, has decided to consolidate the leasehold land and buildings used in the Group's operations at the holding company's level. As at 31 December 2008, property and equipment, land lease prepayments as well as investment properties with a carrying value of HK\$441,985,000 have been disposed at a consideration of HK\$761,097,000 by the Group to PFHL. The centralised management of the properties is believed to enhance the cost effectiveness and efficiency of property management operations of the Group.

Notes to Financial Statements

36. Fair Value of Financial Instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Group's and the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

Group

	2009			2008		
	Carrying value HK\$'000	Fair value HK\$'000	Unrecognised loss HK\$'000	Carrying value HK\$'000	Fair value HK\$'000	Unrecognised loss HK\$'000
Financial assets						
Cash and short term placements	5,573,943	5,573,943	-	5,753,218	5,753,218	-
Placements with banks and financial institutions maturing after one month but not more than twelve months	868,483	868,483	-	173,099	173,099	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Derivative financial instruments	11,657	11,657	-	1,151	1,151	-
Loans and advances and receivables	24,238,565	24,238,565	-	24,184,317	24,184,317	-
Held-to-maturity investments	4,216,634	4,214,088	(2,546)	969,216	957,557	(11,659)
Other assets	441,429	441,429	-	235,308	235,308	-
Financial liabilities						
Deposits and balances of banks and other financial institutions at amortised cost	1,024,628	1,024,628	-	641,732	641,732	-
Derivative financial instruments	1,668	1,668	-	4,150	4,150	-
Customer deposits at amortised cost	29,426,927	29,426,927	-	24,469,410	24,469,410	-
Certificates of deposit issued at amortised cost	-	-	-	879,850	879,850	-
Unsecured bank loans at amortised cost	-	-	-	1,099,219	1,099,219	-
Other liabilities	791,103	791,103	-	360,342	360,342	-
Total unrecognised change in unrealised fair value			(2,546)			(11,659)

36. Fair Value of Financial Instruments (Continued)

Bank

	2009			2008		
	Carrying value HK\$'000	Fair value HK\$'000	Unrecognised loss HK\$'000	Carrying value HK\$'000	Fair value HK\$'000	Unrecognised loss HK\$'000
Financial assets						
Cash and short term placements	5,473,558	5,473,558	-	5,859,622	5,859,622	-
Placements with banks and financial institutions maturing after one month but not more than twelve months	868,483	868,483	-	173,099	173,099	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Derivative financial instruments	11,657	11,657	-	1,151	1,151	-
Loans and advances and receivables	20,172,245	20,172,245	-	20,005,481	20,005,481	-
Held-to-maturity investments	4,216,634	4,214,088	(2,546)	969,216	957,557	(11,659)
Other assets	587,540	587,540	-	149,692	149,692	-
Financial liabilities						
Deposits and balances of banks and other financial institutions at amortised cost	1,760,262	1,760,262	-	1,596,902	1,596,902	-
Derivative financial instruments	1,668	1,668	-	4,150	4,150	-
Customer deposits at amortised cost	26,100,336	26,100,336	-	20,834,470	20,834,470	-
Certificates of deposit issued at amortised cost	-	-	-	879,850	879,850	-
Unsecured bank loans at amortised cost	-	-	-	1,099,219	1,099,219	-
Other liabilities	805,918	805,918	-	249,763	249,763	-
Total unrecognised change in unrealised fair value			(2,546)			(11,659)

(A) Assets and liabilities for which fair value approximates to carrying value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

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

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair values of fixed rate financial assets and financial liabilities carried at amortised cost are based on current interest rates offered for similar financial instruments appropriate for the remaining term to maturity. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates. For those certificates of deposit issued and customer deposits where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Notes to Financial Statements

36. Fair Value of Financial Instruments (Continued)

(B) Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repackaging);
- Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
- Level 3: valuation techniques for which any significant input are not based on observable market data.

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

2009

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets:				
Derivative financial instruments	–	11,657	–	11,657
Available-for-sale financial assets	–	–	6,804	6,804
	–	11,657	6,804	18,461
Financial liabilities:				
Derivative financial instruments	–	1,668	–	1,668

2008

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets:				
Derivative financial instruments	–	1,151	–	1,151
Available-for-sale financial assets	14,720	–	6,804	21,524
	14,720	1,151	6,804	22,675
Financial liabilities:				
Derivative financial instruments	–	4,150	–	4,150

There were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

There were no issues and settlements related to the Level 3 financial instruments. Lehman Brothers Minibonds were purchased during 2009 and they were fully impaired as at 31 December 2009.

There was a loss of HK\$42,962,000 and nil comprehensive income reported in income statement and statement of comprehensive income respectively related to the Level 3 financial instruments.

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

There were no financial assets and financial liabilities that offset against each other at 31 December 2009 and 2008.

37. Maturity Analysis of Financial Assets and Financial Liabilities

The tables below show an analysis of financial assets and financial liabilities analysed by principal according to the period that they are expected to be recovered or settled. The Group's and the Bank's contractual undiscounted repayment obligations are shown in the section "Liquidity risk management" of note 38 to the consolidated financial statements.

Group – 2009

	Repayable on demand	Up to 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 12 months	Over 1 year but not more than 5 years	Over 5 years	Repayable within an indefinite period	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets:								
Cash and short term placements	725,539	4,848,404	-	-	-	-	-	5,573,943
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	779,485	88,998	-	-	-	868,483
Loans and advances and receivables	910,768	1,551,182	1,103,493	2,879,014	6,998,903	10,724,579	340,645	24,508,584
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	2,859,338	903,823	411,646	41,827	-	-	4,216,634
Other assets	12	385,688	749	276	162	-	54,542	441,429
Foreign exchange contracts (gross)	-	949,956	592,345	-	-	-	-	1,542,301
Total financial assets	1,636,319	10,594,568	3,379,895	3,379,934	7,040,892	10,724,579	401,991	37,158,178
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	273,574	364,312	345,383	41,359	-	-	-	1,024,628
Customer deposits at amortised cost	7,333,115	10,745,559	8,109,281	3,234,638	4,334	-	-	29,426,927
Certificates of deposit issued at amortised cost	-	-	-	-	-	-	-	-
Unsecured bank loans at amortised cost	-	-	-	-	-	-	-	-
Other liabilities	47	656,481	14,939	13,195	534	-	105,907	791,103
Foreign exchange contracts (gross)	-	946,802	585,510	-	-	-	-	1,532,312
Total financial liabilities	7,606,736	12,713,154	9,055,113	3,289,192	4,868	-	105,907	32,774,970

Notes to Financial Statements

37. Maturity Analysis of Financial Assets and Financial Liabilities (Continued)

Bank – 2009

	Repayable on demand	Up to 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 12 months	Over 1 year but not more than 5 years	Over 5 years	Repayable within an indefinite period	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets:								
Cash and short term placements	626,333	4,847,225	-	-	-	-	-	5,473,558
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	779,485	88,998	-	-	-	868,483
Loans and advances and receivables	889,337	1,338,605	760,982	1,622,887	5,393,571	10,153,377	154,863	20,313,622
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	2,859,338	903,823	411,646	41,827	-	-	4,216,634
Other assets	12	308,069	749	276	162	-	278,272	587,540
Foreign exchange contracts (gross)	-	949,956	592,345	-	-	-	-	1,542,301
Total financial assets	1,515,682	10,303,193	3,037,384	2,123,807	5,435,560	10,153,377	439,939	33,008,942
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	469,208	904,312	345,383	41,359	-	-	-	1,760,262
Customer deposits at amortised cost	7,412,001	10,175,374	6,283,468	2,225,159	4,334	-	-	26,100,336
Certificates of deposit issued at amortised cost	-	-	-	-	-	-	-	-
Unsecured bank loans at amortised cost	-	-	-	-	-	-	-	-
Other liabilities	-	577,410	11,270	11,994	534	-	204,710	805,918
Foreign exchange contracts (gross)	-	946,802	585,510	-	-	-	-	1,532,312
Total financial liabilities	7,881,209	12,603,898	7,225,631	2,278,512	4,868	-	204,710	30,198,828

37. Maturity Analysis of Financial Assets and Financial Liabilities (Continued)

Group – 2008

	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:								
Cash and short term placements	474,009	5,279,209	-	-	-	-	-	5,753,218
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	34,089	139,010	-	-	-	173,099
Loans and advances and receivables	537,303	1,375,197	1,296,954	2,530,372	8,199,015	10,220,650	210,692	24,370,183
Available-for-sale financial assets	-	-	-	-	-	-	21,524	21,524
Held-to-maturity investments	-	217,410	230,973	417,631	103,202	-	-	969,216
Other assets	-	13,487	-	-	-	-	221,821	235,308
Foreign exchange contracts (gross)	-	1,246,816	678,502	-	-	-	-	1,925,318
Total financial assets	1,011,312	8,132,119	2,240,518	3,087,013	8,302,217	10,220,650	454,037	33,447,866
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	30,324	398,546	161,297	51,565	-	-	-	641,732
Customer deposits at amortised cost	3,908,231	10,517,077	6,518,993	3,509,886	15,223	-	-	24,469,410
Certificates of deposit issued at amortised cost	-	-	-	879,850	-	-	-	879,850
Unsecured bank loans at at amortised cost	-	-	-	1,099,219	-	-	-	1,099,219
Other liabilities	-	112,374	-	-	-	-	247,968	360,342
Foreign exchange contracts (gross)	-	1,249,965	678,352	-	-	-	-	1,928,317
Total financial liabilities	3,938,555	12,277,962	7,358,642	5,540,520	15,223	-	247,968	29,378,870

Notes to Financial Statements

37. Maturity Analysis of Financial Assets and Financial Liabilities (Continued)

Bank – 2008

	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:								
Cash and short term placements	400,224	5,459,398	-	-	-	-	-	5,859,622
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	34,089	139,010	-	-	-	173,099
Loans and advances and receivables	514,960	1,162,931	959,103	1,288,604	6,354,687	9,722,448	121,182	20,123,915
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	217,410	230,973	417,631	103,202	-	-	969,216
Other assets	-	15,449	-	-	-	-	134,243	149,692
Foreign exchange contracts (gross)	-	1,246,816	678,502	-	-	-	-	1,925,318
Total financial assets	915,184	8,102,004	1,902,667	1,845,245	6,457,889	9,722,448	262,229	29,207,666
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	76,494	1,307,546	161,297	51,565	-	-	-	1,596,902
Customer deposits at amortised cost	3,960,416	9,414,200	4,350,850	3,095,151	13,853	-	-	20,834,470
Certificates of deposit issued at amortised cost	-	-	-	879,850	-	-	-	879,850
Unsecured bank loans at amortised cost	-	-	-	1,099,219	-	-	-	1,099,219
Other liabilities	-	89,740	-	-	-	-	160,023	249,763
Foreign exchange contracts (gross)	-	1,249,965	678,352	-	-	-	-	1,928,317
Total financial liabilities	4,036,910	12,061,451	5,190,499	5,125,785	13,853	-	160,023	26,588,521

38. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise certificates of deposit issued and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets such as trade bills, held-to-maturity investments, loans and advances and receivables, available-for-sale financial assets and financial assets designated at fair value through profit or loss, which arise directly from its operations.

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

The main risks arising from the Group's financial instruments are market risk, credit risk, liquidity risk and operational risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Risk Management

The Group has established systems, policies and procedures for the control and monitoring of interest rate, foreign currency price, credit, liquidity and operational risks, which are approved and endorsed by the board of directors and reviewed regularly by the Group's management, Credit Risk Management Committee, Credit Committee, Asset and Liability Management Committee, Operational Risk Management Committee and other designated committees or working groups. Material risks are identified and measured by designated committees and /or working groups before the launch of new products or business activities, and 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 Group also perform regular audits to ensure the compliance with the policies and procedures.

Market Risk Management

(a) Interest Rate Risk

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. The interest rate risk is managed by the Group's Treasury Department and monitored and measured by the Asset and Liability Management Committee against limits approved by the board of directors.

Interest rate risk exposures in banking book:

The relevant principal interest rate risk arise from repricing risk and basis risk.

Repricing risk is one of the sources of interest rate risk which arises from timing differences in interest rate changes and cash flows that occur in the repricing and maturity of fixed and floating rate assets, liabilities and off-balance sheet financial instruments. Should the interest rate increase/decrease by 200 basis points and the positive net interest gap be HK\$2,664 million (2008: HK\$2,214 million) up to twelve months, profit before tax would increase/decrease by HK\$69 million (2008: HK\$61 million) for the next twelve months after the reporting date.

Based on the positive net interest gap of HK\$4,694 million (2008: HK\$4,248 million) up to five years, economic value would increase positively by HK\$61 million (2008: HK\$62 million).

38. Financial Risk Management Objectives and Policies (Continued)

Market Risk Management (Continued)

(a) Interest Rate Risk (Continued)

Basis risk is one of the sources of interest rate risk which arises from the difference in the changes of interest rates earned and paid on different financial instruments with similar repricing characteristics. The Group adopts two stress-testing scenarios for the sensitivity analysis:

- (i) Interest rate on managed-rate assets would decrease by 200 basis points whilst interest rate on other interest-bearing assets and interest-bearing liabilities would be kept unchanged. Based on this scenario assumption, profit before tax would decrease by HK\$299 million (2008: HK\$272 million) for the next twelve months;
- (ii) Interest rate on interest-bearing assets and liabilities, except for interest rate on fixed rate assets and managed-rate assets would increase by 200 basis points. Based on this scenario assumption, profit before tax would decrease by HK\$439 million (2008: HK\$353 million) for the next twelve months.

38. Financial Risk Management Objectives and Policies (Continued)

Market Risk Management (Continued)

(a) Interest Rate Risk (Continued)

The carrying amounts of financial instruments exposed to interest rate risk based on the earlier of maturity dates and contractual repricing as at 31 December 2009 and 2008 are detailed as follows:

Group – 2009

	1 year or less HK\$'000	Over 1 year but not more than 2 years HK\$'000	Over 2 years but not more than 3 years HK\$'000	Over 3 years but not more than 4 years HK\$'000	Over 4 years but not more than 5 years HK\$'000	Over 5 years HK\$'000	Non- interest- bearing HK\$'000	Total HK\$'000
Assets:								
Fixed rate financial assets								
Cash and short term placements	4,848,404	-	-	-	-	-	725,539	5,573,943
Placements with banks and financial institutions maturing after one month but not more than twelve months	868,483	-	-	-	-	-	-	868,483
Loans and advances and receivables	2,448,296	1,171,478	604,405	217,371	41,294	81,063	242,067	4,805,974
Derivative financial instruments	-	-	-	-	-	-	11,657	11,657
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	4,094,190	-	-	-	-	-	-	4,094,190
	12,259,373	1,171,478	604,405	217,371	41,294	81,063	986,067	15,361,051
Floating rate financial assets								
Cash and short term placements	-	-	-	-	-	-	-	-
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	-	-	-	-	-	-
Loans and advances and receivables	19,702,170	-	-	-	-	-	440	19,702,610
Held-to-maturity investments	122,444	-	-	-	-	-	-	122,444
	19,824,614	-	-	-	-	-	440	19,825,054
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	751,054	-	-	-	-	-	273,574	1,024,628
Customer deposits at amortised cost	21,933,031	3,678	244	409	-	-	-	21,937,362
Derivative financial instruments	-	-	-	-	-	-	1,668	1,668
	22,684,085	3,678	244	409	-	-	275,242	22,963,658
Floating rate financial liabilities								
Customer deposits at amortised cost	6,736,280	-	-	-	-	-	753,285	7,489,565
Certificates of deposit issued at amortised cost	-	-	-	-	-	-	-	-
Unsecured bank loans at amortised cost	-	-	-	-	-	-	-	-
	6,736,280	-	-	-	-	-	753,285	7,489,565
Total interest sensitivity gap	2,663,622	1,167,800	604,161	216,962	41,294	81,063	(42,020)	4,732,882

Notes to Financial Statements

38. Financial Risk Management Objectives and Policies (Continued)

Market Risk Management (Continued)

(a) Interest Rate Risk (Continued)

Bank – 2009

	1 year or less HK\$'000	Over 1 year but not more than 2 years HK\$'000	Over 2 years but not more than 3 years HK\$'000	Over 3 years but not more than 4 years HK\$'000	Over 4 years but not more than 5 years HK\$'000	Over 5 years HK\$'000	Non- interest- bearing HK\$'000	Total HK\$'000
Assets:								
Fixed rate financial assets								
Cash and short term placements	4,847,225	-	-	-	-	-	626,333	5,473,558
Placements with banks and financial institutions maturing after one month but not more than twelve months	868,483	-	-	-	-	-	-	868,483
Loans and advances and receivables	647,405	310,448	147,961	80,253	25,071	81,063	59,977	1,352,178
Derivative financial instruments	-	-	-	-	-	-	11,657	11,657
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	4,094,190	-	-	-	-	-	-	4,094,190
	10,457,303	310,448	147,961	80,253	25,071	81,063	704,771	11,806,870
Floating rate financial assets								
Cash and short term placements	-	-	-	-	-	-	-	-
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	-	-	-	-	-	-
Loans and advances and receivables	18,961,004	-	-	-	-	-	440	18,961,444
Held-to-maturity investments	122,444	-	-	-	-	-	-	122,444
	19,083,448	-	-	-	-	-	440	19,083,888
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	1,291,054	-	-	-	-	-	469,208	1,760,262
Customer deposits at amortised cost	18,519,990	3,678	244	409	-	-	-	18,524,321
Derivative financial instruments	-	-	-	-	-	-	1,668	1,668
	19,811,044	3,678	244	409	-	-	470,876	20,286,251
Floating rate financial liabilities								
Customer deposits at amortised cost	6,736,504	-	-	-	-	-	839,511	7,576,015
Certificates of deposit issued at amortised cost	-	-	-	-	-	-	-	-
Unsecured bank loans at amortised cost	-	-	-	-	-	-	-	-
	6,736,504	-	-	-	-	-	839,511	7,576,015
Total interest sensitivity gap	2,993,203	306,770	147,717	79,844	25,071	81,063	(605,176)	3,028,492

38. Financial Risk Management Objectives and Policies (Continued)

Market Risk Management (Continued)

(a) Interest Rate Risk (Continued)

Group – 2008

	1 year or less HK\$'000	Over 1 year but not more than 2 years HK\$'000	Over 2 years but not more than 3 years HK\$'000	Over 3 years but not more than 4 years HK\$'000	Over 4 years but not more than 5 years HK\$'000	Over 5 years HK\$'000	Non- interest- bearing HK\$'000	Total HK\$'000
Assets:								
Fixed rate financial assets								
Cash and short term placements	5,226,210	-	-	-	-	-	474,008	5,700,218
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	-	-	-	-	-	-
Loans and advances and receivables	2,394,190	1,099,018	663,968	237,741	48,906	-	84,812	4,528,635
Derivative financial instruments	-	-	-	-	-	-	1,151	1,151
Available-for-sale financial assets	-	-	-	-	-	-	21,524	21,524
Held-to-maturity investments	694,531	-	-	-	-	-	-	694,531
Other assets	-	-	-	-	-	-	-	-
	8,314,931	1,099,018	663,968	237,741	48,906	-	581,495	10,946,059
Floating rate financial assets								
Cash and short term placements	53,000	-	-	-	-	-	-	53,000
Placements with banks and financial institutions maturing after one month but not more than twelve months	173,099	-	-	-	-	-	-	173,099
Loans and advances and receivables	19,841,548	-	-	-	-	-	-	19,841,548
Held-to-maturity investments	274,685	-	-	-	-	-	-	274,685
	20,342,332	-	-	-	-	-	-	20,342,332
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	611,420	-	-	-	-	-	30,312	641,732
Customer deposits at amortised cost	20,430,568	13,725	1,089	-	409	-	-	20,445,791
Derivative financial instruments	-	-	-	-	-	-	4,150	4,150
	21,041,988	13,725	1,089	-	409	-	34,462	21,091,673
Floating rate financial liabilities								
Customer deposits at amortised cost	3,422,684	-	-	-	-	-	600,935	4,023,619
Certificates of deposit issued at amortised cost	879,850	-	-	-	-	-	-	879,850
Unsecured bank loans at amortised cost	1,099,219	-	-	-	-	-	-	1,099,219
Other liabilities	-	-	-	-	-	-	-	-
	5,401,753	-	-	-	-	-	600,935	6,002,688
Total interest sensitivity gap	2,213,522	1,085,293	662,879	237,741	48,497	-	(53,902)	4,194,030

Notes to Financial Statements

38. Financial Risk Management Objectives and Policies (Continued)

Market Risk Management (Continued)

(a) Interest Rate Risk (Continued)

Bank – 2008

	1 year or less HK\$'000	Over 1 year but not more than 2 years HK\$'000	Over 2 years but not more than 3 years HK\$'000	Over 3 years but not more than 4 years HK\$'000	Over 4 years but not more than 5 years HK\$'000	Over 5 years HK\$'000	Non- interest- bearing HK\$'000	Total HK\$'000
Assets:								
Fixed rate financial assets								
Cash and short term placements	5,406,398	-	-	-	-	-	400,224	5,806,622
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	-	-	-	-	-	-
Loans and advances and receivables	611,162	173,724	109,027	42,454	22,172	-	-	958,539
Derivative financial instruments	-	-	-	-	-	-	1,151	1,151
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	694,531	-	-	-	-	-	-	694,531
Other assets	-	-	-	-	-	-	-	-
	6,712,091	173,724	109,027	42,454	22,172	-	408,179	7,467,647
Floating rate financial assets								
Cash and short term placements	53,000	-	-	-	-	-	-	53,000
Placements with banks and financial institutions maturing after one month but not more than twelve months	173,099	-	-	-	-	-	-	173,099
Loans and advances and receivables	19,165,376	-	-	-	-	-	-	19,165,376
Held-to-maturity investments	274,685	-	-	-	-	-	-	274,685
	19,666,160	-	-	-	-	-	-	19,666,160
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	1,520,420	-	-	-	-	-	76,482	1,596,902
Customer deposits at amortised cost	16,738,747	12,355	1,089	-	409	-	-	16,752,600
Derivative financial instruments	-	-	-	-	-	-	4,150	4,150
	18,259,167	12,355	1,089	-	409	-	80,632	18,353,652
Floating rate financial liabilities								
Customer deposits at amortised cost	3,422,909	-	-	-	-	-	658,961	4,081,870
Certificates of deposit issued at amortised cost	879,850	-	-	-	-	-	-	879,850
Unsecured bank loans at amortised cost	1,099,219	-	-	-	-	-	-	1,099,219
Other liabilities	-	-	-	-	-	-	-	-
	5,401,978	-	-	-	-	-	658,961	6,060,939
Total interest sensitivity gap	2,717,106	161,369	107,938	42,454	21,763	-	(331,414)	2,719,216

38. Financial Risk Management Objectives and Policies (Continued)

Market Risk Management (Continued)

(a) Interest Rate Risk (Continued)

The table below summaries the effective average interest rates at 31 December for monetary financial instruments:

	Group		Bank	
	2009 Rate (%)	2008 Rate (%)	2009 Rate (%)	2008 Rate (%)
Assets				
Placements with banks and financial institutions (including short term placements)	0.27	2.63	0.27	2.63
Loans and advances and receivables (including trade bills)	5.59	5.93	2.47	2.97
Held-to-maturity investments	1.94	3.55	1.94	3.55
Liabilities				
Deposits and balances of banks and other financial institutions at amortised cost	1.32	1.55	0.77	1.56
Customer deposits at amortised cost	0.63	2.03	0.57	1.89
Certificates of deposit issued at amortised cost	-	2.38	-	2.38
Unsecured bank loans at amortised cost	-	1.42	-	1.42

(b) Currency Risk

Currency risk is the risk that the holding of foreign currencies will affect the Bank'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 directors. The Group has no significant foreign currency risk as the Group's assets and liabilities are mainly denominated in Hong Kong dollars and United States dollars of which the exchange rates have remained relatively stable among each other for the years ended 31 December 2009 and 2008. Accordingly, no quantitative market risk disclosures for currency risk have been prepared.

(c) Price Risk

Price risk is the risk to the Bank's earnings and capital due to changes in the prices of securities including commodities, 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 board of directors and are monitored on a daily basis.

The Group does not actively trade in financial instruments and in the opinion of the board of directors, the price risk related to trading activities to which the Group is exposed is not material. Accordingly, no quantitative market risk disclosures for price risk have been prepared.

38. Financial Risk Management Objectives and Policies (Continued)

Credit Risk Management

Credit risk is the risk that a customer or counterparty in a transaction may default. It arises from the lending, 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 Manual defines the credit extension and measurement criteria, the credit review, approval and monitoring processes, and the loan classification and provisioning systems. It has a hierarchy of credit authority which approves credit in compliance with the Group's credit policy. Credit risk exposures are measured and monitored against credit limits and other control limits (such as connected exposures, large exposures and risk concentration limits set by the Credit Risk Management Committee and approved by the board of directors). Segregation of duties in key credit functions is in place to ensure separate credit control and monitoring. Management and recovery of problem credits is 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 detailed procedures and controls for monitoring of connected lending exposures. In general, interest rates and other terms and conditions applying to connected lending should not be more favourable than the use of loans granted 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 the Internal Audit Department to evaluate the effectiveness of the credit review, approval and monitoring processes and to ensure established credit policies and procedures are complied with.

The Credit Committee monitors the quality of financial assets which are neither past due nor impaired by financial performance indicators (such as loan-to-value ratio, debts servicing ratio, financial soundness of borrowers and personal guarantee) through meeting discussions, management information systems and reports. Those 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.

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

The Credit Risk Management Committee is responsible for establishing the framework for identifying, measuring, monitoring and controlling credit risk of existing and new products, and approving credit risk management policies and credit risk tolerable limits as and when necessary.

The Group mitigates credit risk by credit protection provided by guarantors and by loan collateral such as cash, properties, taxi licences and cabs and securities.

38. Financial Risk Management Objectives and Policies (Continued)

Credit Risk Management (Continued)

Maximum credit exposures without taking into account the fair value of collateral are as follows:

	Group		Bank	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Loans and advances and other receivables	24,508,584	24,370,183	20,313,622	20,123,915
Irrevocable loan commitments	1,290,284	1,796,134	1,200,129	1,796,134
Other credit related contingent liabilities	359,533	387,207	359,533	387,207
Other credit related commitments	1,780,648	2,447,446	2,030,648	2,357,306
Placements with banks and financial institutions	868,483	173,099	868,483	173,099
Short term placements (excluding cash in hand)	5,451,766	5,623,732	5,366,391	5,745,861
Held-to-maturity investments	4,216,634	969,216	4,216,634	969,216
Derivative financial instruments	11,657	1,151	11,657	1,151
Interest in a jointly-controlled entity	1,513	1,513	1,500	1,500

Other quantitative data about credit risk exposure to loans and advances are disclosed in Note 14 “Loans and advances and receivables” and the significant concentrations of credit risk attributed to loans and advances managed by industry sector and geographical region are detailed in “Advances to customers by industry sectors” of Supplementary Information.

Liquidity Risk Management

Liquidity risk is the risk that the Group cannot meet its current obligations. To manage liquidity risk, the Group has established the liquidity management policy which is reviewed by management and approved by the directors. The Group measures the liquidity of the Group using the statutory liquidity ratio, loan-to-deposit ratio, maturity mismatch ratio and other relevant performance measures.

The Asset and Liability Management Committee monitors the liquidity position as part of the ongoing assets and liabilities management, and set up trigger limits to monitor liquidity risk. It also closely monitors the liquidity of the subsidiaries on a periodic basis to ensure that the liquidity structure of the subsidiaries’ assets, liabilities and commitments can meet the funding needs, and that internal liquidity trigger limits are complied with. Standby facilities are maintained to provide liquidity to meet unexpected and material cash outflows in the ordinary course of business.

Notes to Financial Statements

38. Financial Risk Management Objectives and Policies (Continued) Liquidity Risk Management (Continued)

Maturity analysis of financial liabilities, based on contractual undiscounted cash flow, are as follows:

Group – 2009

	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
Forward assets purchase	-	21,570	-	-	-	-	-	21,570
Foreign currency contracts (gross)	-	946,802	585,510	-	-	-	-	1,532,312
Gross loan commitments	733,332	291,260	53,110	152,282	60,300	-	-	1,290,284
Customer deposits at amortised cost	7,333,164	10,750,936	8,125,098	3,269,041	13,631	-	-	29,491,870
Deposits and balances of banks and other financial institutions at amortised cost	273,574	364,526	349,914	41,568	-	-	-	1,029,582
Certificates of deposit issued at amortised cost	-	-	-	-	-	-	-	-
Unsecured bank loans at amortised cost	-	-	-	-	-	-	-	-
Other liabilities	-	644,680	-	-	-	-	105,907	750,587
	8,340,070	13,019,774	9,113,632	3,462,891	73,931	-	105,907	34,116,205

Group – 2008

	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
Forward assets purchase	-	23,346	-	-	-	-	-	23,346
Foreign currency contracts (gross)	-	1,249,965	678,352	-	-	-	-	1,928,317
Gross loan commitments	1,232,870	273,811	30,357	7,363	230,157	21,576	-	1,796,134
Customer deposits at amortised cost	3,909,599	10,562,042	6,563,100	3,595,597	16,475	-	-	24,646,813
Deposits and balances of banks and other financial institutions at amortised cost	30,324	401,990	163,496	54,488	-	-	-	650,298
Certificates of deposit issued at amortised cost	-	972	4,250	886,016	-	-	-	891,238
Unsecured bank loans at amortised cost	-	1,257	2,263	1,104,573	-	-	-	1,108,093
Other liabilities	-	111,097	1,277	-	-	-	247,968	360,342
	5,172,793	12,624,480	7,443,095	5,648,037	246,632	21,576	247,968	31,404,581

38. Financial Risk Management Objectives and Policies (Continued)

Liquidity Risk Management (Continued)

Maturity analysis of financial liabilities, based on contractual undiscounted cash flow, are as follows:

Bank – 2009

	Repayable on demand	Up to 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 12 months	Over 1 year but not more than 5 years	Over 5 years	Repayable within an indefinite period	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Forward assets purchase	-	21,570	-	-	-	-	-	21,570
Foreign currency contracts (gross)	-	946,802	585,510	-	-	-	-	1,532,312
Gross loan commitments	643,177	291,260	53,110	152,282	60,300	-	-	1,200,129
Customer deposits at amortised cost	7,368,956	10,178,966	6,292,777	2,254,014	13,631	-	-	26,108,344
Deposits and balances of banks and other financial institutions at amortised cost	469,208	904,526	349,914	41,568	-	-	-	1,765,216
Certificates of deposit issued at amortised cost	-	-	-	-	-	-	-	-
Unsecured bank loans at amortised cost	-	-	-	-	-	-	-	-
Other liabilities	-	567,193	-	-	-	-	204,710	771,903
	8,481,341	12,910,317	7,281,311	2,447,864	73,931	-	204,710	31,399,474

Bank – 2008

	Repayable on demand	Up to 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 12 months	Over 1 year but not more than 5 years	Over 5 years	Repayable within an indefinite period	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Forward assets purchase	-	23,346	-	-	-	-	-	23,346
Foreign currency contracts (gross)	-	1,249,965	678,352	-	-	-	-	1,928,317
Gross loan commitments	1,142,730	273,811	30,357	7,363	230,157	21,576	-	1,705,994
Customer deposits at amortised cost	3,918,782	9,444,846	4,377,837	3,173,826	15,046	-	-	20,930,337
Deposits and balances of banks and other financial institutions at amortised cost	76,494	1,311,002	163,496	54,488	-	-	-	1,605,480
Certificates of deposit issued at amortised cost	-	972	4,250	886,016	-	-	-	891,238
Unsecured bank loans at amortised cost	-	1,257	2,263	1,104,573	-	-	-	1,108,093
Other liabilities	-	89,740	-	-	-	-	160,023	249,763
	5,138,006	12,394,939	5,256,555	5,226,266	245,203	21,576	160,023	28,442,568

Notes to Financial Statements

38. Financial Risk Management Objectives and Policies (Continued)

Operational Risk Management

The 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 Bank has operational risk management function in place to identify, measure, monitor and control operational risk. Its Operational Risk Management Policy Manual defines responsibilities of various committees, business units and supporting departments, highlights key operational risk factors and categories with loss event types to facilitate the measurement and assessment of operational risks and potential impact. The 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 Operational Risk Management Committee for monitoring and control of operational risk.

Capital Management

Capital of the Bank for regulatory and risk management purpose include share capital, share premium, reserves, retained profits, regulatory reserve and sub-ordinated debts, if any. The Finance and Control Department is responsible for monitoring the amount of the capital base and capital adequacy ratio against trigger limits and for risk exposures, ensuring compliance with relevant statutory limits taking into account business growth, dividend payout and other relevant factors.

The Bank's policy is to maintain a strong capital base to support the development of the Bank's businesses and to meet the statutory capital adequacy ratio and other regulatory capital requirements. Capital is allocated to the various business activities of the Bank depending on the risk 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 three years.

Capital adequacy and core capital ratios

	Group		Bank	
	2009	2008	2009	2008
Capital adequacy ratio	19.1%	18.9%	15.4%	15.3%
Core capital ratio	18.0%	17.8%	15.4%	15.3%

38. Financial Risk Management Objectives and Policies (Continued)

Capital Disclosures

The components of the total capital base include the following items:

2009

	Group HK\$'000	Bank HK\$'000
Core capital:		
Paid up ordinary share capital	1,481,600	1,481,600
Share premium account	1,372,445	1,372,445
Published reserves	1,181,341	1,399,945
Income statement	166,582	97,614
Deduct:		
Goodwill	(242,342)	–
Deferred Tax Assets	(5,180)	(4,902)
Core capital before deductions	3,954,446	4,346,702
Less: Deductions from shareholdings in subsidiaries	(33,054)	(1,535,507)
Other deductions	(5,152)	(5,152)
Total core capital after deductions	3,916,240	2,806,043
Supplementary capital:		
Regulatory reserve	163,050	200,025
Collective impairment allowances	109,654	25,616
Supplementary capital before deductions	272,704	225,641
Less: Deductions from shareholdings in subsidiaries	(33,054)	(220,489)
Other deductions	(5,152)	(5,152)
Total supplementary capital after deductions	234,498	–
Capital base	4,150,738	2,806,043

The subsidiaries not included in the computation of the capital adequacy ratio, capital base and risk weighted amounts of the Group are Public Bank (Nominees) Limited, Public Investments Limited, Public Realty Limited, Public Credit Limited, Public Futures Limited, Public Pacific Securities Limited, Public Financial Securities Limited, Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited. Deductions from the capital base included investment in subsidiaries and other exposures.

Notes to Financial Statements

38. Financial Risk Management Objectives and Policies (Continued)

Capital Disclosures (Continued)

2008

	Group HK\$'000	Bank HK\$'000
Core capital:		
Paid up ordinary share capital	1,481,600	1,481,600
Share premium account	1,372,445	1,372,445
Published reserves	793,943	942,753
Income statement	332,962	454,885
Deduct:		
Goodwill	(242,342)	–
Core capital before deductions	3,738,608	4,251,683
Less: Deductions from shareholdings in subsidiaries	(34,531)	(1,543,763)
Other deductions	(5,152)	(5,152)
Total core capital after deductions	3,698,925	2,702,768
Supplementary capital:		
Regulatory reserve	181,956	199,315
Collective impairment allowances	79,090	21,024
Supplementary capital before deductions	261,046	220,339
Less: Deductions from shareholdings in subsidiaries	(34,531)	(215,187)
Other deductions	(5,152)	(5,152)
Total supplementary capital after deductions	221,363	–
Capital base	3,920,288	2,702,768

Capital adequacy ratio at 31 December 2009 and 2008 were compiled on both solo and consolidated basis in accordance with Banking (Capital) Rules under Section 98A of the Banking Ordinance for the implementation of the “Basel II” capital accord. The companies consolidated into capital base and risk weighted exposures included the Bank and Public Finance.

38. Financial Risk Management Objectives and Policies (Continued)

Capital Disclosures (Continued)

Group

Class of exposures	2009					
	Rated [#] HK\$'000	Exposures*		Risk-weighted amounts		
		Unrated HK\$'000	Total HK\$'000	Rated HK\$'000	Unrated HK\$'000	Total HK\$'000
On-balance sheet:						
Sovereign	773,342	-	773,342	-	-	-
Public sector entity	-	336,416	336,416	-	67,283	67,283
Bank	9,850,447	-	9,850,447	2,301,615	-	2,301,615
Securities firm	-	142,608	142,608	-	71,304	71,304
Corporate	450,000	5,589,531	6,039,531	450,000	5,589,531	6,039,531
Cash items	-	798,027	798,027	-	61,998	61,998
Regulatory retail	-	7,559,839	7,559,839	-	5,669,880	5,669,880
Residential mortgage	-	8,796,448	8,796,448	-	4,022,952	4,022,952
Past due exposures	-	281,395	281,395	-	414,278	414,278
Collective investment scheme exposures	-	-	-	-	-	-
Other non-past due exposures	-	1,175,916	1,175,916	-	1,175,916	1,175,916
Off-balance sheet:						
OTC derivative transactions						
- foreign exchange contracts	-	1,438,553	1,438,553	-	59	59
- others	-	-	-	-	-	-
Other off-balance sheet items	-	3,680,465	3,680,465	-	201,270	201,270
	11,073,789	29,799,198	40,872,987	2,751,615	17,274,471	20,026,086

Notes to Financial Statements

38. Financial Risk Management Objectives and Policies (Continued)

Capital Disclosures (Continued)

Bank

Class of exposures	2009					
	Exposures*			Risk-weighted amounts		
	Rated# HK\$'000	Unrated HK\$'000	Total HK\$'000	Rated HK\$'000	Unrated HK\$'000	Total HK\$'000
On-balance sheet:						
Sovereign	773,342	-	773,342	-	-	-
Public sector entity	-	336,417	336,417	-	67,283	67,283
Bank	9,767,653	-	9,767,653	2,285,055	-	2,285,055
Securities firm	-	142,608	142,608	-	71,304	71,304
Corporate	450,000	5,589,000	6,039,000	450,000	5,589,000	6,039,000
Cash items	-	782,848	782,848	-	61,998	61,998
Regulatory retail	-	3,866,593	3,866,593	-	2,899,945	2,899,945
Residential mortgage	-	8,477,524	8,477,524	-	3,911,330	3,911,330
Past due exposures	-	143,910	143,910	-	208,050	208,050
Collective investment scheme exposures	-	-	-	-	-	-
Other non-past due exposures	-	1,213,894	1,213,894	-	1,213,894	1,213,894
Off-balance sheet:						
OTC derivative transactions						
- foreign exchange contracts	-	1,438,553	1,438,553	-	59	59
- others	-	-	-	-	-	-
Other off-balance sheet items	-	3,590,310	3,590,310	-	201,270	201,270
	10,990,995	25,581,657	36,572,652	2,735,055	14,224,133	16,959,188

38. Financial Risk Management Objectives and Policies (Continued)

Capital Disclosures (Continued)

Group

Class of exposures	2008					
	Rated# HK\$'000	Exposures*		Risk-weighted amounts		
		Unrated HK\$'000	Total HK\$'000	Rated HK\$'000	Unrated HK\$'000	Total HK\$'000
On-balance sheet:						
Sovereign	371,607	–	371,607	–	–	–
Public sector entity	–	383,750	383,750	–	76,750	76,750
Bank	6,358,126	–	6,358,126	1,582,817	–	1,582,817
Securities firm	–	48,456	48,456	–	24,228	24,228
Corporate	486,389	5,855,531	6,341,920	504,584	5,855,566	6,360,150
Cash items	–	500,072	500,072	–	53,947	53,947
Regulatory retail	–	6,587,761	6,587,761	–	4,985,830	4,985,830
Residential mortgage	–	10,390,167	10,390,167	–	5,776,605	5,776,605
Past due exposures	–	106,969	106,969	–	160,431	160,431
Collective investment scheme exposures	–	–	–	–	–	–
Other non-past due exposures	–	405,094	405,094	–	405,094	405,094
Off-balance sheet:						
OTC derivative transactions						
– foreign exchange contracts	–	1,523,795	1,523,795	–	68	68
– others	–	–	–	–	–	–
Other off-balance sheet items	–	4,630,787	4,630,787	–	244,824	244,824
	7,216,122	30,432,382	37,648,504	2,087,401	17,583,343	19,670,744

Notes to Financial Statements

38. Financial Risk Management Objectives and Policies (Continued)

Capital Disclosures (Continued)

Bank

Class of exposures	2008					
	Exposures*			Risk-weighted amounts		
	Rated# HK\$'000	Unrated HK\$'000	Total HK\$'000	Rated HK\$'000	Unrated HK\$'000	Total HK\$'000
On-balance sheet:						
Sovereign	371,607	–	371,607	–	–	–
Public sector entity	–	383,750	383,750	–	76,750	76,750
Bank	6,561,168	–	6,561,168	1,623,424	–	1,623,424
Securities firm	–	48,456	48,456	–	24,228	24,228
Corporate	486,389	5,855,531	6,341,920	504,583	5,855,566	6,360,149
Cash items	–	480,748	480,748	–	53,947	53,947
Regulatory retail	–	2,694,452	2,694,452	–	2,065,735	2,065,735
Residential mortgage	–	10,126,259	10,126,259	–	5,684,239	5,684,239
Past due exposures	–	30,888	30,888	–	46,309	46,309
Collective investment scheme exposures	–	–	–	–	–	–
Other non-past due exposures	–	328,443	328,443	–	328,443	328,443
Off-balance sheet:						
OTC derivative transactions						
– foreign exchange contracts	–	1,523,795	1,523,795	–	68	68
– others	–	–	–	–	–	–
Other off-balance sheet items	–	4,540,648	4,540,648	–	244,824	244,824
	7,419,164	26,012,970	33,432,134	2,128,007	14,380,109	16,508,116

* Principal amount or credit equivalent amount, net of individual impairment allowance before and after credit risk mitigation.

Exposures are rated by the Bank's ECAI ("External Credit Assessment Institutions"), Moody's, with ECAI issue specific ratings or with ECAI inferred rating. Risk weights are determined based on ECAI ratings pursuant to the Banking (Capital) Rules.

The Group did not enter into OTC derivative transactions other than foreign exchange contracts and interest rate swaps and futures with counterparties during 2009 and 2008. The credit exposures attributed to such transactions are considered insignificant.

38. Financial Risk Management Objectives and Policies (Continued)

Capital Disclosures (Continued)

2009

	Group		Bank	
	Risk-weighted exposures HK\$'000	Capital requirements/ charge HK\$'000	Risk-weighted exposures HK\$'000	Capital requirements/ charge HK\$'000
Credit risk	20,026,086	1,602,087	16,959,188	1,356,735
Market risk – foreign exchange exposures	238,250	19,060	238,250	19,060
Operational risk	1,551,988	124,159	1,054,938	84,395
Deductions	(103,331)	–	–	–
	21,712,993	1,745,306	18,252,376	1,460,190

2008

	Group		Bank	
	Risk-weighted exposures HK\$'000	Capital requirements/ charge HK\$'000	Risk-weighted exposures HK\$'000	Capital requirements/ charge HK\$'000
Credit risk	19,670,744	1,573,660	16,508,116	1,320,649
Market risk – foreign exchange exposures	216,600	17,328	216,600	17,328
Operational risk	996,338	79,707	902,438	72,195
Deductions	(122,595)	–	(3,087)	–
	20,761,087	1,670,695	17,624,067	1,410,172

The Group and the Bank have adopted standardised approach for calculation of credit risk-weighted exposures and market risk-weighted exposures and adopted basic indicator approach to calculate of operational risk-weighted exposures during the years ended 31 December 2009 and 2008.

For internal monitoring purpose, calculation of capital requirements/charge for credit risk weighted exposure was disclosed based on 100% of such exposure as of 31 December 2008. In current year, the Group has revisited its internal monitoring procedures and has adopted 8% in the calculation of capital requirements/charges to better reflect the Bank's exposure to various risks and provide a more consistent approach in the calculation with reference to standardised approach under the Banking (Capital) Rules. Accordingly, comparative amounts of relevant disclosure were re-stated to conform with the current year's presentation.

39. Comparative Amounts

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation.

40. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 18 January 2010.

Supplementary Information (Unaudited)

Advances to customers by industry sectors

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

Group

	31 December 2009								
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	New impairment allowances 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 for use in Hong Kong									
Manufacturing	721,087	872	41,755	43,683	38,455	339,368	47.1	79,403	64,628
Building and construction, property development and investment									
Property development	570,549	634	-	-	-	60,658	10.6	-	-
Property investment	5,686,703	6,312	-	-	-	4,787,073	84.2	907	-
Civil engineering works	118,640	131	-	-	-	36,655	30.9	-	-
Electricity and gas	27,765	31	-	-	-	-	-	-	-
Recreational activities	3,039	3	-	-	-	3,039	100.0	-	-
Information technology	2,992	3	-	-	-	2,505	83.7	-	-
Wholesale and retail trade	92,169	102	461	461	-	74,729	81.1	1,872	9
Transport and transport equipment	3,507,466	3,431	3,066	2,610	3,204	3,477,280	99.1	3,362	3,190
Hotels, boarding houses and catering	353,965	393	-	-	-	21,915	6.2	-	-
Financial concerns	453,249	503	-	-	-	387,419	85.5	-	-
Stockbrokers									
Margin lending	87,019	97	-	-	-	33,235	38.2	-	-
Others	56,771	63	-	-	-	1,316	2.3	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	49,015	54	-	-	-	11,666	23.8	-	-
Others	143,364	159	-	-	-	133,351	93.0	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	204,443	227	-	-	43	204,443	100.0	292	292
Loans for the purchase of other residential properties	6,642,735	7,241	413	258	258	6,631,499	99.8	2,696	1,497
Loans for credit card advances	18,110	20	91	760	690	-	-	91	45
Loans for other business purposes	409	-	-	-	-	409	100.0	-	-
Loans for other private purposes	3,820,450	84,207	45,562	519,134	457,250	301,695	7.9	182,934	104,995
Trade finance	606,050	673	9,960	12,754	29,532	473,240	78.1	107,460	29,054
Other loans and advances	77,852	87	-	24,443	3,006	71,912	92.4	-	-
Sub-total	23,243,842	105,243	101,308	604,103	532,438	17,053,407	73.4	379,017	203,710
Loans and advances for use outside Hong Kong	1,122,555	3,975	57,443	21,240	-	437,394	39.0	147,431	147,431
Total loans and advances (excluding trade bills)	24,366,397	109,218	158,751	625,343	532,438	17,490,801	71.8	526,448	351,141

Advances to customers by industry sectors (Continued)

Bank

	31 December 2009								
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	New impairment allowances 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 for use in Hong Kong									
Manufacturing	710,759	789	41,755	43,683	38,455	336,923	47.4	79,297	64,522
Building and construction, property development and investment									
Property development	570,433	634	-	-	-	60,658	10.6	-	-
Property investment	5,682,639	6,312	-	-	-	4,783,009	84.2	907	-
Civil engineering works	118,170	131	-	-	-	36,185	30.6	-	-
Electricity and gas	27,765	31	-	-	-	-	-	-	-
Recreational activities	3,039	3	-	-	-	3,039	100.0	-	-
Information technology	2,992	3	-	-	-	2,505	83.7	-	-
Wholesale and retail trade	78,628	87	461	461	-	70,441	89.6	1,863	-
Transport and transport equipment	3,088,772	3,431	3,066	2,610	3,204	3,058,640	99.0	3,362	3,190
Hotels, boarding houses and catering	353,965	393	-	-	-	21,915	6.2	-	-
Financial concerns	453,249	503	-	-	-	387,419	85.5	-	-
Stockbrokers									
Margin lending	87,019	97	-	-	-	33,235	38.2	-	-
Others	56,771	63	-	-	-	1,316	2.3	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	49,015	54	-	-	-	11,666	23.8	-	-
Others	143,364	159	-	-	-	133,351	93.0	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	204,443	227	-	-	43	204,443	100.0	292	292
Loans for the purchase of other residential properties	6,519,090	7,241	413	258	258	6,507,854	99.8	2,696	1,497
Loans for credit card advances	18,110	20	91	760	690	-	-	91	45
Loans for other business purposes	409	-	-	-	-	409	100.0	-	-
Loans for other private purposes	240,642	267	958	2,150	1,476	115,538	48.0	959	274
Trade finance	606,050	673	9,960	12,754	29,532	473,240	78.1	107,460	29,054
Other loans and advances	77,353	87	-	24,443	3,006	71,413	92.3	-	-
Sub-total	19,092,677	21,205	56,704	87,119	76,664	16,313,199	85.4	196,927	98,874
Loans and advances for use outside Hong Kong	1,122,555	3,975	57,443	21,240	-	437,394	39.0	147,431	147,431
Total loans and advances (excluding trade bills)	20,215,232	25,180	114,147	108,359	76,664	16,750,593	82.9	344,358	246,305

Supplementary Information (Unaudited)

Advances to customers by industry sectors (Continued)

Group

Group	31 December 2008								
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	New impairment allowances 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 for use in Hong Kong									
Manufacturing	542,760	608	34,808	38,750	9,860	71,477	13.2	42,963	39,459
Building and construction, property development and investment									
Property development	596,458	626	–	344	344	56,769	9.5	–	–
Property investment	5,720,563	5,941	–	–	–	4,198,015	73.4	4,308	–
Civil engineering works	93,295	97	–	–	–	7,681	8.2	–	–
Electricity and gas	34,080	35	–	–	–	–	–	–	–
Recreational activities	3,023	3	–	–	–	2,915	96.4	–	–
Information technology	1,565	2	–	–	–	–	–	–	–
Wholesale and retail trade	42,331	58	–	6,450	11,678	28,348	67.0	889	–
Transport and transport equipment	3,332,725	3,038	3,777	2,293	239	433,005	13.0	6,185	4,674
Hotels, boarding houses and catering	12,505	11	–	–	–	11,565	92.5	–	–
Financial concerns	156,033	162	–	–	–	21,910	14.0	–	–
Stockbrokers									
Margin lending	–	–	–	–	–	–	–	–	–
Others	52,223	54	–	–	–	3,454	6.6	–	–
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	243,798	253	–	–	–	–	–	–	–
Others	2,303	2	–	–	–	–	–	–	–
Professional and private individuals									
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	234,704	244	32	29	–	234,672	100.0	32	32
Loans for the purchase of other residential properties	6,159,142	6,281	859	35	–	6,158,283	100.0	2,578	825
Loans for credit card advances	18,945	20	31	410	379	–	–	31	31
Loans for other business purposes	11,824	164	–	–	–	534	4.5	202	202
Loans for other private purposes	4,000,964	58,196	10,918	94,451	85,674	168,391	4.2	88,565	82,591
Trade finance	623,706	648	30,559	33,628	5,967	45,418	7.3	38,521	17,431
Other loans and advances	1,349,670	1,402	2,986	16,387	–	297,866	22.1	8,434	2,865
Sub-total	23,232,617	77,845	83,970	192,777	114,141	11,740,303	50.5	192,708	148,110
Loans and advances for use outside Hong Kong	1,002,654	1,042	16,274	–	–	316,066	31.5	60,622	57,724
Total loans and advances (excluding trade bills)	24,235,271	78,887	100,244	192,777	114,141	12,056,369	49.7	253,330	205,834

Advances to customers by industry sectors (Continued)

Bank

	31 December 2008								
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	New impairment allowances 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 for use in Hong Kong									
Manufacturing	531,477	552	34,808	38,750	9,860	68,887	13.0	42,930	39,426
Building and construction, property development and investment									
Property development	595,746	619	–	344	344	56,769	9.5	–	–
Property investment	5,716,276	5,941	–	–	–	4,193,728	73.4	4,308	–
Civil engineering works	93,295	97	–	–	–	7,681	8.2	–	–
Electricity and gas	34,080	35	–	–	–	–	–	–	–
Recreational activities	3,023	3	–	–	–	2,915	96.4	–	–
Information technology	1,565	2	–	–	–	–	–	–	–
Wholesale and retail trade	36,355	38	–	6,450	11,678	26,479	72.8	889	–
Transport and transport equipment	2,922,777	3,038	3,777	2,293	239	23,155	0.8	6,185	4,674
Hotels, boarding houses and catering	10,218	11	–	–	–	9,278	90.8	–	–
Financial concerns	156,033	162	–	–	–	21,910	14.0	–	–
Stockbrokers									
Margin lending	–	–	–	–	–	–	–	–	–
Others	52,223	54	–	–	–	3,454	6.6	–	–
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	243,798	253	–	–	–	–	–	–	–
Others	2,303	2	–	–	–	–	–	–	–
Professional and private individuals									
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	234,704	244	32	29	–	234,672	100.0	32	32
Loans for the purchase of other residential properties	6,043,061	6,281	859	35	–	6,042,202	100.0	2,578	825
Loans for credit card advances	18,945	20	31	410	379	–	–	31	31
Loans for other business purposes	534	1	–	–	–	534	100.0	–	–
Loans for other private purposes	361,497	376	1,552	689	723	27,171	7.5	3,351	3,049
Trade finance	623,706	648	30,559	33,628	5,967	45,418	7.3	38,521	17,431
Other loans and advances	1,349,122	1,402	2,986	16,387	–	297,318	22.0	8,434	2,865
Sub-total	19,030,738	19,779	74,604	99,015	29,190	11,061,571	58.1	107,259	68,333
Loans and advances for use outside Hong Kong	1,002,654	1,042	16,274	–	–	316,066	31.5	60,622	57,724
Total loans and advances (excluding trade bills)	20,033,392	20,821	90,878	99,015	29,190	11,377,637	56.8	167,881	126,057

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

Supplementary Information (Unaudited)

Non-bank mainland exposures

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

Group and Bank

	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total exposures HK\$'million	Individual impairment allowance HK\$'million
As at 31 December 2009				
Mainland entities	98	142	240	–
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	124	–	124	–
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland exposures	741	–	741	38
	963	142	1,105	38

Group and Bank

	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total exposures HK\$'million	Individual impairment allowance HK\$'million
As at 31 December 2008				
Mainland entities	182	231	413	–
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	125	–	125	–
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland exposures	926	–	926	17
	1,233	231	1,464	17

Cross-border claims

The following table illustrates the geographical disclosure of the Group and the Bank's cross-border claims by type of counterparties on which the ultimate risk lies, and is shown according to the location of the counterparties after taking into account the transfer of risk. An individual country or geographical area is reported if it constitutes 10% or more of the aggregate cross-border claims and the table has been prepared in accordance with the guidelines issued by the HKMA.

Group and Bank

	Banks and other financial institutions HK\$'million	Public sector entities HK\$'million	Others HK\$'million	Total HK\$'million
As at 31 December 2009				
1. Asia Pacific excluding Hong Kong of which:	4,395	9	372	4,776
Malaysia	1,940	–	93	2,033
2. Western Europe of which:	4,526	–	135	4,661
France	1,181	–	–	1,181
As at 31 December 2008				
1. Asia Pacific excluding Hong Kong of which:	3,669	29	386	4,084
Malaysia	2,368	–	45	2,413
2. Western Europe of which:	2,456	–	171	2,627
Germany	934	–	–	934

Currency risk

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

Group and Bank

	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long/(short) position	Net structural long position
As at 31 December 2009 (In HK\$'million)						
US Dollars	4,105	3,579	511	1,028	9	
Renminbi	370	133	–	–	237	
Others	3,257	3,141	154	275	(5)	
	7,732	6,853	665	1,303	241	
Renminbi						227

Supplementary Information (Unaudited)

Currency risk (Continued)

Group and Bank

	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long/(short) position	Net structural long position
As at 31 December 2008 (In HK\$'million)						
US Dollars	4,672	6,200	1,694	181	(15)	
Renminbi	332	115	–	1	216	
Others	2,452	2,326	169	300	(5)	
	7,456	8,641	1,863	482	196	
Renminbi						227

Liquidity ratios

	2009	2008
Average liquidity ratios for the year:		
Group	52.6%	Not Applicable
Bank	48.0%	39.3%

The average liquidity ratios are computed on both consolidated and solo basis using the arithmetic mean of each calendar month's average liquidity ratio as reported in the return relating to liquidity position submitted by the Bank to the HKMA pursuant to Section 63 of the Banking Ordinance in respect of the annual reporting period.

On solo basis, the computation of average liquidity ratio includes only the Head Office and branches of the Bank operating in Hong Kong.

With effect from 1 February 2009, liquidity ratio computation on consolidated basis is also required. The computation of average liquidity ratio on consolidated basis includes the Head Office, all branches of the Bank and Public Finance.

Corporate Governance

The Bank is committed to high standards of corporate governance and complies with the guidelines issued by the HKMA in the Supervisory Policy Manual “Corporate Governance of Locally Incorporated Authorised Institutions” in material aspects. To accomplish this, the Bank exercises corporate governance through the following Committees:

1. Board Executive Committee

The Board Executive Committee consists of executive and non-executive directors and is responsible for the management of the businesses of the Bank in all aspects and the implementation of strategic business plans and policies approved and formulated by the directors.

2. Management Committee

The Management Committee is established by the board to ensure the effectiveness of the daily operations and that the operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved. It comprises Chief Executive, Alternate Chief Executives, Senior Deputy General Manager, Head of Treasury, Head of Operations, Head of Credit, Financial Controller and Heads of business units.

3. Audit Committee

The Audit Committee is authorised by the directors to review and investigate where necessary any activity within its terms of reference. Its main duties include discussion with external auditors about the nature and scope of the audit, to review the Bank’s financial statements before submission to the directors and to review the Bank’s internal audit programme, internal controls and compliance systems. The Audit Committee comprises non-executive directors appointed by the directors, and a majority of them are independent non-executive directors.

4. Credit Committee

The Credit Committee is responsible for making decisions on application for all types of credit facilities within its limits set out in the Credit Policy and in particular, to monitor the lending portfolio for managing the overall credit risk of the Bank. It comprises the Chief Executive, Alternate Chief Executive, Senior Deputy General Manager, Assistant General Managers, and Head of Credit.

5. Asset and Liability Management Committee

The Asset and Liability Management Committee reviews and assesses the risk profile and statement of financial position structure of the Bank, sets out the objectives for the asset and liability management function and implements relevant risk management strategy. This is monitored and managed within a framework of approved policies and limits, and is reported regularly to the Board Executive Committee or board of directors. The Asset and Liability Management Committee comprises the Executive Chairman, Chief Executive, Alternate Chief Executives, non-executive directors, Head of Treasury, Financial Controller and Risk Manager.

6. Credit Risk Management Committee

The Credit Risk Management Committee is responsible for establishing the framework for identifying, measuring, monitoring and controlling credit risk of existing and new products, and approving credit risk management policies and credit risk tolerable limits as and when necessary. It comprises Chief Executive, Alternate Chief Executive, Financial Controller and Risk Manager.

7. Operational Risk Management Committee

The Operational Risk Management Committee is responsible for the implementation of the operational risk management framework approved by the board of directors, and the development of specific policies, processes and procedures for managing operational risk in the material products, activities, processes and systems. It comprises Chief Executive, Alternate Chief Executive, Head of Information Technology, Head of Operations, Financial Controller and Risk Manager.

Supplementary Information (Unaudited)

Corporate Governance (Continued)

8. IT Steering Committee

The IT Steering Committee is responsible for establishing policies and strategies for the computerisation of the Bank, recommending to management on major acquisitions of computer hardware and software, and monitoring the progress of the implementation of all information technology related projects. The Committee comprises the Chief Executive, Alternate Chief Executive, Heads of business units, Head of Internal Audit, Head of Operations, Financial Controller and Head of Information Technology.

9. Finance Committee

The Finance Committee assists the board of directors in the financial planning and budgeting process of the business of the Bank and the review of the business performance, statutory and half year accounts. The Finance Committee comprises the Chief Executive, Alternate Chief Executive, Senior Deputy General Manager, Heads of business units, Head of Credit and Financial Controller.

10. Human Resources Committee

The Human Resources Committee assists the board in formulating and implementing human resources policies including staff recruitment, promotion, career development, performance appraisal and remuneration of all staff. The Human Resources Committee comprises Chief Executive, Alternate Chief Executive, Senior Deputy General Manager and Head of Human Resources.

11. Anti-money Laundering (“AML”) and Counter Terrorist Financing (“CTF”) Committee

The AML and CTF Committee is responsible for overseeing whether the Bank was in compliance with the laws and regulations of Hong Kong on combating of money laundering and traffickering and fighting against terrorist financing, updating the Bank’s policy on prevention of money laundering and terrorist financing, providing major training to all employees of the Bank on AML and CTF guidelines and overseeing the Bank’s implementation of the Guidelines on Prevention of Money Laundering and Anti-terrorist Financing in meeting the AML objectives. It comprises Chief Executive, Alternate Chief Executive, Senior Deputy General Manager, Financial Controller, Head of Compliance Department, Head of Internal Audit Department and Business Unit and Department Heads.