

Annual Report 2010



Corporate Information

Board of Directors

Tan Sri Dato' Sri Dr. Teh Hong Piow (*Chairman*)
Tan Sri Datuk Seri Utama 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) 2541 9222
Facsimile : (852) 2541 0009
Website : www.publicbank.com.hk

Auditors

Ernst & Young
Certified Public Accountants

Legal Advisers

Charles Yeung Clement Lam Liu & Yip
Deacons
Philip K H Wong, Kennedy Y H Wong & Co
Siao, Wen and Leung

Principal Bankers

Bank of China
CIMB Bank Berhad
Oversea-Chinese Banking Corporation Limited
Public Bank Berhad
Public Bank (L) Limited
Standard Chartered Bank
Tai Yau Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

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Branch Network

(As at 18 March 2011)



Head Office and Branches

Head Office
Public Bank Centre, 120 Des Voeux Road Central
Tel : 2541 9222
P.O. BOX : G.P.O. BOX 624
Website : www.publicbank.com.hk

Telex : 73085 CBHK HKHH
Fax : 2541 0009

Hong Kong Island

- 1 Main Branch
G/F, Public Bank Centre
120 Des Voeux Road Central
Tel: 2541 9222 Fax: 2545 2866
Manager: So Wai Ming, Aubrey
- 2 Western Branch
Shop 2-3, G/F, Kam Kwan Building
160-170 Des Voeux Road West
Tel: 2858 2220 Fax: 2858 2638
Manager: Pang Ching Fan, Fanny
- 3 Wanchai Commercial Centre
Unit A, 9/F, China Overseas Building
133 Hennessy Road, Wanchai
Tel: 2831 4171 Fax: 2834 1012
Manager: Wong Lap Kee, Martin
- 4 North Point Branch
Shop 2, G/F, Two Chinachem Exchange Square,
338 King's Road, North Point
Tel: 2568 5141 Fax: 2567 0655
Manager: Ng Ngan Sum
- 5 Shek Tong Tsui Branch
Shop B1, G/F, Hong Kong Plaza
369-375 Des Voeux Road West
Tel: 2546 2055 Fax: 2559 7962
Manager: Ting Lai May, May
- 6 Causeway Bay Branch
G/F and M/F, 447 Hennessy Road
Causeway Bay
Tel: 2572 2363 Fax: 2572 3033
Manager: Leung Siu Ying, Fanny
- 7 Central Branch
Unit A, G/F, Wing On House
71 Des Voeux Road Central
Tel: 2147 2140 Fax: 2147 2244
Manager: Ngan Pui Shan, Sandy
- 8 Aberdeen Branch
Shop C, G/F, Kong Kai Building
184 Aberdeen Main Road, Aberdeen
Tel: 2871 0828 Fax: 2871 0383
Manager: Wong Chun Hoi, Wilson
- 9 Shau Kei Wan Branch
Shop 2, G/F, Hong Tai Building
326-332 Shaukeiwan Road
Tel: 2884 3993 Fax: 2885 9283
- 10 Quarry Bay Branch
Shop 8, G/F, Oceanic Mansion
1010-1026 King's Road, Quarry Bay
Tel: 2856 3880 Fax: 2856 0833
Manager: Chui King Yan, Connie

Kowloon

- 11 Yaumatei Branch
Shop 6, G/F, Wing Kiu Building
530-538 Nathan Road
Tel: 2381 1678 Fax: 2395 6398
Manager: Wong Mun Yu, Moon
- 12 Kowloon City Branch
G/F, 15 Nga Tsin Wai Road, Kowloon City
Tel: 2382 0147 Fax: 2718 4281
Manager: Lau Yiu Fai, Lawrence
- 13 Hung Hom Branch
G/F, Hunghom Commercial Centre
37 Ma Tau Wai Road, Hung Hom
Tel: 2363 9213 Fax: 2363 3195
Manager: Lee Wai Kwan, Luceta
- 14 Kwun Tong Branch
Unit 2310, Tower 1, Millennium City 1
388 Kwun Tong Road
Tel: 2389 9119 Tel: 2389 9969
Manager: Chiu Ka Leung, Henry
- 15 Mongkok Branch
G/F, JCC Building, 16 Mongkok Road
Tel: 2391 8393 Fax: 2391 6309
Manager: Chan Chun Chuen, Raymond
- 16 San Po Kong Branch
Shop B, G/F, Perfect Industrial Building
31 Tai Yau Street, San Po Kong
Tel: 2326 8318 Fax: 2326 9180
Manager: Kwong Hon Wun, Peter
- 17 Cheung Sha Wan Branch
Unit C2, G/F, 746 Cheung Sha Wan Road
Tel: 2786 8588 Fax: 2786 9506
Manager: Lai Siu Yee, Flora
- 18 Wong Tai Sin Branch
Shop 641-642, G/F,
Tsz Wan Shan Shopping Centre,
Wong Tai Sin
Tel: 2328 7332 Fax: 2328 7991
Manager: Lau Keung Fai, David
- 19 To Kwa Wan Branch
Shop D, G/F, In House, No. 307 To Kwa Wan Road
Tel: 2362 0238 Fax: 2362 3999
Manager: Choi Kam Yee, Catalina
- 20 Prince Edward Branch
G/F, 751 Nathan Road
Tel: 2397 3830 Fax: 2397 1006
Manager: Leung Yuen Fan, Maggie
- 21 Tai Kok Tsui Branch
Shop 2B, G/F, Tai Chuen Building
88-102 Ivy Street, Tai Kok Tsui
Tel: 2392 1538 Fax: 2392 1101
Manager: So Tak Fai, Peter
- 22 Tsim Sha Tsui Branch
G/F, 27 Cameron Road
Tsim Sha Tsui
Tel: 2721 1218 Fax: 2721 1028
Manager: Yam Oi Yin, Pauline

New Territories

- 23 Yuen Long Branch
Shop 5, G/F, Fu Ho Building
3-7 Kau Yuk Road, Yuen Long
Tel: 2479 4265 Fax: 2473 3934
Manager: Lam Wong Kan, Kent
- 24 Tsuen Wan Branch
G/F, Victory Court, 185-187 Castle Peak Road
Tsuen Wan
Tel: 2490 4191 Fax: 2490 4811
Manager: Kan Pak Ling, Lucia
- 25 Kwai Chung Branch
Shop 88B of Trendy Place, 3/F, Kwai Chung Plaza,
7-11 Kwai Foo Road, Kwai Chung
Tel: 2480 0002 Fax: 2401 2367
Manager: Wong Sze Mui, Rhoda
- 26 Tai Po Branch
Shop B, G/F, 18-24 Kwong Fuk Road, Tai Po
Tel: 2657 2861 Fax: 2657 7389
Manager: Tsang Wai Chor
- 27 Fanling Branch
G/F, 11 Wo Lung Street
Luen Wo Market, Fanling
Tel: 2669 1559 Fax: 2669 8780
Manager: Kee Ka Wai
- 28 Sheung Shui Branch
G/F, 73 San Fung Avenue, Sheung Shui
Tel: 2638 0307 Fax: 3124 0091
Manager: Yan Yi Kam, Patrick
- 29 Tuen Mun Branch
Shop E, G/F, Kam Lai Building
Nos. 1-7 Kai Man Path, Tuen Mun
Tel: 2440 1298 Fax: 2440 1398
Manager: Fong Fung Mei, Marisa
- 30 Sai Kung Branch
G/F, 16 Yi Chun Street, Sai Kung
Tel: 2792 8588 Fax: 2791 0077
Manager: Chong Mei Kuen, Joe
- 31 Tseung Kwan O Branch
G105-106, G/F, Metro City Plaza I, Tseung Kwan O
Tel: 2701 7888 Fax: 2701 7628
Manager: Lau Chi Kai, Thomas
- 32 Shatin Branch
Shop Nos. 4-6B, Lucky Plaza Commercial Centre, Shatin
Tel: 2601 6308 Fax: 2601 3686

Greater China

- 33 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
- 34 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 : Ye Jun Liang, Leo
- 35 Shekou Sub-branch
Shop No. 155-156, Coastal Building (East Block)
Hai Di San Bao, 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



Fanling Branch of Public Bank (Hong Kong) relocated to a better location in June 2010.



Senior Management of Public Bank, Malaysia at a business dialogue with the Heads of Business Units and Branch Managers during their visit to Public Bank (Hong Kong) in July 2010.



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



The grand opening of Tai Kok Tsui Branch of Public Bank (Hong Kong) in January 2011.



Mr. Tan Yoke Kong, Executive Director and Chief Executive, delivered his opening address at the Group's Annual Dinner 2010.



The contestants of Miss Public Bank Group (Hong Kong) at the Annual Dinner.



The Group's grand choir singing the Public Bank Corporate Song at the Annual Dinner 2010.



Mr. Tan posing with all the beauties of "Public Bank Group (Hong Kong) Beauty Pageant 2010".

Our Corporate Family

Corporate Events & Recreational Activities



Participants of the "Inter-House Snooker Competition" organised by the Group's Sports Club in July 2010.



Staff enjoying the "BBQ and Golf Fun Day" at Whitehead Golf Driving Range in November 2010.



The "gunmen" and "gunwomen" were ready for action in the War Game organised in October 2010.



Participants taking part in the "Inter-House Christmas Bowling Competition 2010".



Group photo of staff attending the "2010 National Sales Convention" held at the Sunway Lagoon Resort Hotel in Malaysia in January 2010.



Staff and their family members enjoyed a pleasant trip during the Group's Annual Outing 2010 to Ocean Spring Resort in Zhuhai, PRC.



Staff took a photo with Mr. Tan during the Group's Annual Outing 2010 to Zhuhai.

Our Corporate Family Marketing & Promotions

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 查詢即電 2848 1888

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I am pleased to present a review of the performance of Public Bank (Hong Kong) Limited and its subsidiaries (the "Group") for the financial year ended 31 December 2010.

Financial performance

The Group recorded a significant increase in profit after tax by 83.6% or HK\$206.6 million to HK\$453.8 million for the financial year ended 31 December 2010. Total assets of the Group recorded a growth of 2.7% or HK\$0.98 billion to HK\$36.85 billion as at 31 December 2010 from HK\$35.87 billion as at the end of the previous year. Total loans and advances (including trade bills) of the Group registered a growth of 9.5% or HK\$2.31 billion to HK\$26.75 billion as at 31 December 2010 from HK\$24.44 billion as at 31 December 2009. Deposits from customers of the Group registered a growth of 1.1% or HK\$0.31 billion to HK\$29.74 billion as at 31 December 2010 from HK\$29.43 billion as at 31 December 2009.

Tan Sri Dato' Sri Dr. Teh Hong Piow

Chairman



The improved earnings of the Group was mainly due to the decrease in impairment allowances for consumer financing loans and commercial loans, as well as the increase in net interest income and other operating income of the Group. The Group's impaired loans to total loans improved to 1.2% as at 31 December 2010 from 2.2% as at 31 December 2009 with improvement in the loan asset quality.

The Board of Directors had declared an interim dividend of HK\$7.187 per share in June 2010. The Board of Directors recommends the payment of a final dividend of HK\$7.162 (2009: HK\$5.895) per share, making a total dividend of HK\$14.349 per share for 2010. The total dividend declared and recommended for the year amounted to HK\$212.6 million.

Business development

In 2010, Public Bank (Hong Kong) Limited (the "Bank"), which operates 30 branches in Hong Kong and 3 branches in Shenzhen in the People's Republic of China (the "PRC"), continued to focus on its market segments and provide a broad range of commercial and retail banking services. Two additional new branches of the Bank will be opened for business in January and March 2011. Public Finance Limited ("Public Finance"), a subsidiary of the Bank, which operates a network of 42 branches in Hong Kong, continued to focus on its core business in personal lending. The Group has a combined network of 75 branches as at end of 2010. The Group also undertakes securities trading business through two stock broking subsidiaries.

The Group will continue to adopt flexible and prudent business strategies and adjust to market changes accordingly in growing its customer base and business. The Group will continue to provide quality, professional and comprehensive financial services to its customers in the expansion of its business.

Financial review

For the year under review, the Group's net interest income increased by 6.9% or HK\$80.9 million to HK\$1,256.9 million from HK\$1,176.0 million in the previous year, mainly due to the growth in loans and advances. Other operating income (excluding gains on disposal of available-for-sale financial assets in 2009) of the Group increased by 20.5% or HK\$45.4 million to HK\$266.5 million when compared to the previous year, mainly due to an increase in fee income from the Group's stock broking business and loans related fee income.

The Group's impairment allowances for financial assets improved significantly by HK\$228.6 million to HK\$281.1 million from HK\$509.7 million in the previous year as a result of recovery of defaulted commercial loans and decrease in impairment allowances for consumer financing loans.

Total operating costs and overheads (before change in fair value of investment properties) of the Group increased by 18.2% or HK\$107.8 million, mainly due to the increase in staff and premises related costs in the year under review.

Loans and deposits

The Group will continue to focus on expanding its retail and commercial banking and consumer loans businesses through the expanded branch network of the Group, offering innovative products and pursuing aggressive marketing activities, providing excellent quality customer service and competitive pricing strategies.

The Group will continue to seek further synergies in developing the Group's businesses as well as to enhance its operating costs efficiency through cross selling of loans and wealth management products, and streamline the supporting operations of the combined branch network of the Bank and Public Finance.

Acknowledgement

On behalf of the Board of Directors, I wish to take this opportunity to express our appreciation to the management and staff of the Group for their commitment, dedication and perseverance, and sincere gratitude to our customers for their invaluable patronage, and to the shareholders for their continued confidence in and their support of the Group, and to the Hong Kong Monetary Authority, the Securities and Futures Commission and other relevant authorities for their invaluable advice, guidance and support.

Tan Sri Dato' Sri Dr. Teh Hong Piow

Chairman

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 2010.

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 2010 and the state of affairs of the Bank and of the Group at that date are set out in the financial statements on pages 17 to 111.

The directors recommend the payment of a final dividend of HK\$7.162 (2009: HK\$5.895) per ordinary share. Interim dividend of HK\$7.187 (2009: Nil) per ordinary share was declared and paid during the year.

Property and equipment, land held under finance leases and investment properties

Details of movements in property and equipment, land held under finance leases 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 was no movement 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

In accordance with Articles 105 and 106 of the New Articles of Association of the Bank, Dato’ Chang Kat Kiam, Mr. Quah Poh Keat and Mr. Lee Chin Guan 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:

Name of director	Number of ordinary shares attached to the share options				Exercise price	Exercise period
	At the beginning of the year	Granted during the year	Exercised during the year	At the end of the year		
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

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 did not make charitable donations (2009: HK\$2,000).

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

14 January 2011

Independent Auditors' Report



To the shareholders of Public Bank (Hong Kong) Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Public Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 17 to 111, which comprise the consolidated and the Bank's statement of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated 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 information.

Directors' responsibility for the consolidated financial statements

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

Independent Auditors' Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2010, 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

14 January 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	2010 HK\$'000	2009 HK\$'000
Interest income	5	1,489,110	1,455,691
Interest expense	5	(232,234)	(279,693)
NET INTEREST INCOME		1,256,876	1,175,998
Gain less losses from disposal of available-for-sale financial assets		-	9,699
Other operating income	6	266,528	221,095
Non-interest income		266,528	230,794
OPERATING INCOME		1,523,404	1,406,792
Operating expenses	7	(700,961)	(593,187)
Changes in fair value of investment properties		2,478	7,291
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		824,921	820,896
Impairment allowance in relation to the Lehman Brothers Minibonds repurchased		-	(42,962)
		824,921	777,934
Impairment allowances for loans and advances and receivables	8	(281,045)	(509,650)
PROFIT BEFORE TAX		543,876	268,284
Tax	10	(90,125)	(21,113)
PROFIT FOR THE YEAR		453,751	247,171
ATTRIBUTABLE TO:			
Owners of the Bank	11	453,751	247,171

Details of dividends paid/payable are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 HK\$'000	2009 HK\$'000
PROFIT FOR THE YEAR	453,751	247,171
OTHER COMPREHENSIVE INCOME:		
Exchange gain/(loss) on translating foreign operations	13,205	(80)
Gain on revaluation of available-for-sale financial assets	-	11,379
Transfer to consolidated income statement for disposal of available-for-sale financial assets	-	(9,699)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	13,205	1,600
Note		
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	466,956	248,771
ATTRIBUTABLE TO:		
Owners of the Bank	466,956	248,771

Note: There were no tax effects arising from "Other comprehensive income" for the years ended 31 December 2010 and 2009.

Consolidated Statement of Financial Position

31 December 2010

	Notes	Group			Bank		
		31/12/2010 HK\$'000	31/12/2009 (Restated) HK\$'000	1/1/2009 (Restated) HK\$'000	31/12/2010 HK\$'000	31/12/2009 (Restated) HK\$'000	1/1/2009 (Restated) HK\$'000
ASSETS							
Cash and short term placements	13	6,018,609	5,573,943	5,753,218	5,934,469	5,473,558	5,859,622
Placements with banks and financial institutions maturing after one month but not more than twelve months	14	723,715	868,483	173,099	723,715	868,483	173,099
Derivative financial instruments	33	10,167	11,657	1,151	10,167	11,657	1,151
Loans and advances and receivables	15	26,626,606	24,238,565	24,184,317	22,370,133	20,172,245	20,005,481
Available-for-sale financial assets	16	6,804	6,804	21,524	6,804	6,804	6,804
Held-to-maturity investments	17	2,709,776	4,216,634	969,216	2,709,776	4,216,634	969,216
Interests in subsidiaries	18	–	–	–	1,755,997	1,755,997	1,758,250
Interests in a jointly-controlled entity	19	1,513	1,513	1,513	1,500	1,500	1,500
Deferred tax assets	29	9,633	13,367	4,279	7,508	11,443	2,979
Tax recoverable		901	17,275	14,452	585	16,825	11,677
Intangible assets	21	718	718	358	–	–	–
Property and equipment	22	68,609	72,760	69,898	55,488	59,489	57,705
Land held under finance leases	23	111,256	110,207	105,369	108,356	111,079	113,802
Investment properties	24	47,338	49,568	58,877	22,049	20,999	19,690
Goodwill	25	242,342	242,342	242,342	–	–	–
Other assets	20	269,987	441,429	235,308	177,949	587,540	149,692
TOTAL ASSETS		36,847,974	35,865,265	31,834,921	33,884,496	33,314,253	29,130,668
EQUITY AND LIABILITIES							
LIABILITIES							
Deposits and balances of banks and other financial institutions at amortised cost		680,382	1,024,628	641,732	1,070,440	1,760,262	1,596,902
Derivative financial instruments	33	5,435	1,668	4,150	5,435	1,668	4,150
Customer deposits at amortised cost	26	29,744,973	29,426,927	24,469,410	26,775,672	26,100,336	20,834,470
Certificates of deposit issued at amortised cost		200,000	–	879,850	200,000	–	879,850
Unsecured bank loans at amortised cost	27	878,939	–	1,099,219	798,939	–	1,099,219
Current tax payable		40,909	17,627	19,661	1,702	557	1,561
Deferred tax liabilities	29	7,256	6,942	12,958	6,522	6,541	10,667
Other liabilities	28	420,577	791,103	360,342	296,633	805,918	249,763
TOTAL LIABILITIES		31,978,471	31,268,895	27,487,322	29,155,343	28,675,282	24,676,582
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK							
Issued capital	30	1,481,600	1,481,600	1,481,600	1,481,600	1,481,600	1,481,600
Reserves	31	3,387,903	3,114,770	2,865,999	3,247,553	3,157,371	2,972,486
TOTAL EQUITY		4,869,503	4,596,370	4,347,599	4,729,153	4,638,971	4,454,086
TOTAL EQUITY AND LIABILITIES		36,847,974	35,865,265	31,834,921	33,884,496	33,314,253	29,130,668

Tan Sri Dato' Thong Yaw Hong
Director

Tan Yoke Kong
Director

Chong Yam Kiang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Note	2010 HK\$'000	2009 HK\$'000
TOTAL EQUITY			
Balance at the beginning of the year		4,596,370	4,347,599
Profit for the year		453,751	247,171
Other comprehensive income		13,205	1,600
Total comprehensive income for the year		466,956	248,771
Dividends paid in respect of previous year	12(a)	(87,340)	–
Dividends paid in respect of current year	12(a)	(106,483)	–
Balance at the end of the year		4,869,503	4,596,370

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 HK\$'000	2009 (Restated) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		543,876	268,284
Adjustments for:			
Dividend income from listed investments	6	(13)	(374)
Dividend income from unlisted investments	6	(980)	(980)
Depreciation of property, equipment and land held under finance leases	7	24,594	23,764
Increase in fair value of investment properties	24	(2,478)	(7,291)
(Decrease)/increase in impairment allowances for loans and advances and receivables		(66,468)	84,153
Gains less losses from disposal of available-for-sale financial assets		-	(9,699)
Net losses on disposal of property and equipment		108	45
Exchange differences		14,175	(80)
Profits tax paid		(46,421)	(41,074)
Operating profit before changes in operating assets and liabilities		466,393	316,748
Increase in operating assets:			
Decrease/(increase) in cash and short term placements		411,633	(411,633)
Decrease/(increase) in placements with banks and financial institutions		120,535	(546,371)
Decrease/(increase) in derivative financial instruments		1,490	(10,506)
Increase in loans and advances and receivables		(2,322,543)	(138,400)
Decrease in held-to-maturity investments		275,524	159,607
Decrease/(increase) in other assets		171,442	(206,122)
		(1,341,919)	(1,153,425)
(Decrease)/increase in operating liabilities:			
(Decrease)/increase in deposits and balances of banks and other financial institutions at amortised cost		(344,246)	382,896
Increase in customer deposits at amortised cost		318,046	4,957,517
Increase/(decrease) in certificates of deposit issued at amortised cost		200,000	(879,850)
Increase/(decrease) in derivative payables		3,767	(2,482)
(Decrease)/increase in other liabilities		(370,526)	430,761
		(192,959)	4,888,842
Net cash (outflow)/inflow from operating activities		(1,068,485)	4,052,165

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 HK\$'000	2009 (Restated) HK\$'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES		(1,068,485)	4,052,165
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and land held under finance leases	22, 23	(16,933)	(22,809)
Exchange differences		41	–
Sales proceeds of investment property, property and equipment		–	7,900
Purchase of an intangible asset		–	(360)
Sales proceeds of available-for-sale financial assets		–	26,099
Dividends received from listed investments		13	374
Dividends received from unlisted investments		980	980
Net cash (outflow)/inflow from investing activities		(15,899)	12,184
CASH FLOWS FROM FINANCING ACTIVITIES			
New unsecured bank loan		878,939	–
Dividends paid on shares		(193,823)	–
Repayment of unsecured bank loans		–	(1,099,219)
Net cash inflow/(outflow) from financing activities		685,116	(1,099,219)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(399,268)	2,965,130
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		8,939,856	5,974,726
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		8,540,588	8,939,856
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand		681,947	725,539
Money at call and short notice with original maturity within three months		5,336,662	4,436,771
Placements with banks and financial institutions with original maturity within three months		158,869	183,102
Held-to-maturity investments with original maturity within three months		2,363,110	3,594,444
		8,540,588	8,939,856

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, which was incorporated in Malaysia.

2.1 Accounting Policies

These consolidated 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 ("Int")) 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 the consolidated financial statements has complied with the applicable Supervisory Policy Manuals and the Guideline on the Application of the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the "HKMA").

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of 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

Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries 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, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full on consolidation.

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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest, and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained, and (iii) any surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.1 Accounting Policies (Continued)

Basis of consolidation (Continued)

Basis of consolidation from 1 January 2010 (Continued)

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 set out in note 19 to the financial statements.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised as goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interests and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net assets value at the date the control was lost. The carrying values of such investments at 1 January 2010 have not been restated.

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 required level as soon as possible.

The computation of the capital adequacy ratio of the Group is based on the ratio 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 profits 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 Changes in Accounting Policy and Disclosures

The HKICPA has issued a number of new HKFRSs, which are generally effective for current accounting periods. The Group has adopted the following HKFRSs and HKASs issued up to 31 December 2010 which are pertinent to its operations and relevant to 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 |
| • HKFRS 1 (Revised) | First-time Adoption of Hong Kong Financial Reporting Standards |
| • HKFRS 2 Amendments | Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions |
| • HKFRS 3 (Revised) | Business Combinations |
| • HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| • HKAS 39 Amendments | Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items |
| • HK(IFRIC)-Int 17 | Distributions of Non-cash Assets to Owners |
| • HK-Int 4 Amendment | Amendment to HK-Int 4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases |
| • HK-Int 5 | Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause |
| • HKFRS 5 Amendments included in Improvements to HKFRSs issued in October 2008 | Amendment to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary |
| • Improvements to HKFRSs 2009 | Amendments to a number of HKFRSs issued in May 2009 |

The principal effects of adopting these new and revised HKFRSs are as follows:

HKFRS 1 Amendments address the retrospective application of HKFRSs to particular situations (such as exempt entities using the full cost method from the 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 have no financial impact on the Group.

HKFRS 1 (Revised) is 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 HKFRSs, the revisions have no financial impact on the Group.

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 transactions. The amendments have no financial impact on the Group.

2.2 Changes in Accounting Policy and Disclosures (Continued)

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 (previously 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 consolidated income statement; and (v) separately accounting for pre-existing relationships between the acquirer and acquiree. The amendments have no 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 the subsidiary. Other consequential amendments are 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 have no financial impact on the Group.

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 has no financial impact on the Group, as the Group has not entered into any such hedges.

HK(IFRIC)-Int 17 standardises practice in the accounting for all non-reciprocal distributions of non-cash assets to owners. 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 are 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 has no material financial impact on the Group.

HK-Int 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 states 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 judgement 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 adoption of HK-Int 4 has resulted in a change in accounting policy, disclosure and presentation relating to leasehold land. A leasehold land has been re-classified from operating lease to finance lease, and the land lease continues to be depreciated over its lease term on straight line basis with no significant financial impact on the Group. The corresponding amortisation has also been reclassified to depreciation. The effect of the above changes are summarised below:

The amortisation of prepaid land lease will decrease and there will be a corresponding increase in depreciation of land held under finance lease. The impact to income offsets each other.

2.2 Changes in Accounting Policy and Disclosures (Continued)

As a result of retrospective application of the amendments which results in restatement of items in the consolidated statement of financial position, a consolidated statement of financial position as at 1 January 2009, and the related notes affected by the amendments have been presented in these financial statements.

HK-Int 5 addresses the classification of term loans with repayment on demand clause as current or non-current liabilities by entities reporting under HKFRSs. The adoption of HK-Int 5 has resulted in a change in disclosure that the entire term loan has been re-classified from repayable within one year to repayment on demand when a repayment on demand clause provides the lender with a clear and unambiguous unconditional right to demand repayment at any time at its sole discretion and a borrower does not have unconditional right to defer payment for at least 12 months after the reporting date. The effect of the above changes is summarised below:

The impact is to reclassify the unsecured bank loan of HK\$80,000,000 from repayable within one year to repayment on demand. The details are shown in note 27.

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. The amendments have no 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. There is a separate transitional provision for each standard. While the adoption of some of them may result in changes in accounting policy, none of these amendments have a material financial impact on the Group.

HKFRS 2 Share-based Payment: It revises the scope that transactions in which an 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 do not fall under the scope of this HKFRS.

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 1 Presentation of Financial Statements: It provides guidance on the classification of current or non-current convertible instruments.

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

HKAS 17 Leases: 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 18 Revenue: It provides additional guidance to determine whether an entity is acting as principal or agent.

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 may be separable together with a related contract and identifiable liability in addition to identifiable asset. Additional consequential amendments to this HKAS arising from the revised HKFRS 3 are also incorporated.

2.2 Changes in Accounting Policy and Disclosures (Continued)

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.

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

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

- | | |
|----------------------------------|---|
| • HKFRS 1 Amendment | Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ² |
| • HKFRS 7 Amendments | Amendments to HKFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets ⁴ |
| • HKFRS 9 | Financial Instruments ⁵ |
| • HKAS 24 (Revised) | Related Party Disclosures ³ |
| • HKAS 32 Amendment | Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues ¹ |
| • Amendments to HK(IFRIC)-Int 14 | Prepayments of a Minimum Funding Requirement ³ |
| • HK(IFRIC)-Int 19 | Extinguishing Financial Liabilities with Equity Instruments ² |

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 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 3 and HKAS 27 which are effective for annual periods beginning on or after 1 July 2010, amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there is a separate transitional provision for each standard or interpretation.

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

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

³ effective for annual periods beginning on or after 1 January 2011

⁴ effective for annual periods beginning on or after 1 July 2011

⁵ effective for annual periods beginning on or after 1 January 2013

HKFRS 1 Amendment relieves first-time adopters of HKFRSs from providing the additional disclosures in HKFRS 7 Amendments. As the Group is not a first-time adopter of HKFRSs, the amendment will not have any financial impact on the Group.

HKFRS 7 Amendments require an entity to disclose both quantitative and qualitative information for the derecognition of financial assets where the entity has a continuing involvement in the derecognised assets. The Group expects to adopt HKFRS 7 from 1 July 2011. As the Group does not have continuing involvement in the derecognised assets, the amendment will not have any financial impact on the Group.

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

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions"). The changes only affect the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other requirements in HKAS 39 in respect of liabilities are carried forward into HKFRS 9. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting, derecognition and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2011 subject to the completion date of accounting system enhancements.

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.

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.

The amendments to HK(IFRIC)-Int 14 require 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 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.

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

In May 2010, 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 2011. There is a separate transitional provision for each standard. While the adoption of some of them may result changes in accounting policy, none of these amendments are expected to have a material financial impact on the Group.

- (a) HKFRS 1 Amendment: It addresses the presentation and disclosure requirements for entity which changes its accounting policies or its uses of the exemptions contained in this HKFRS. It also introduces the use of revaluation basis as deemed cost and extends the use of the deemed cost exemption to entities with operations subject to rate regulation.
- (b) HKFRS 3 Amendments clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates preceded the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also add explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- (c) HKAS 1 (Revised) clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- (d) HKAS 27 clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.
- (e) HKAS 34 Amendments: It requires the update of relevant information related to significant events and transactions in the most recent annual financial report. HKAS 34 now specifies events and transactions for which disclosures are required, and guidance has been added covering the application of the requirements for financial instruments.
- (f) HK(IFRIC)-Int 13 clarifies that fair value of award credits should take account of expected forfeitures as well as the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.

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 rates of exchange ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to "Other operating income" or "Other operating expenses" in the consolidated 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 consolidated 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 consolidated 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 consolidated 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 are 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 consolidated 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 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 consolidated 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 consolidated income statement. The losses arising from impairment of such investments are recognised in the consolidated income statement as “Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale financial assets”.

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 consolidated income statement. The losses arising from impairment are recognised in the consolidated 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 consolidated 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 consolidated 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 consolidated income statement in “Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale financial assets” 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 or 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated income statement, is removed from equity and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated 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 consolidated income statement, the impairment loss is reversed through the consolidated 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 classified as “Property and equipment” but represented on a separate line 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 consolidated 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 consolidated 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 held under finance leases are stated at cost less accumulated depreciation and any impairment, and are depreciated over the remaining lease terms on a straight-line basis to the consolidated 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 retains 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 consolidated 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.

2.4 Summary of Significant Accounting Policies (Continued)

(7) Recognition of revenue and expenditure (Continued)

(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 consolidated income statement as “Other operating income”.

(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 from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with HKAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in consolidated income statement as gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. 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 Group are assigned to those units or groups of units.

2.4 Summary of Significant Accounting Policies (Continued)

(9) Business combinations and goodwill (Continued)

Business combinations from 1 January 2010 (Continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (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.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied to business combination prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

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

(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.

2.4 Summary of Significant Accounting Policies (Continued)

(11) Joint venture companies and jointly-controlled entity (Continued)

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

(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);

2.4 Summary of Significant Accounting Policies (Continued)

(12) Related parties (Continued)

- (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 consolidated 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 |
| • Land held under finance leases | Over the lease term |

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 consolidated 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.

Land held under finance leases are stated at cost less accumulated depreciation and any impairment, and are depreciated over the remaining lease terms on a straight-line basis to the consolidated income statement.

Medium term leases are leases with remaining lease period of more than 10 years to 50 years. Long term leases are leases with remaining lease period of more than 50 years.

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 consolidated 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 consolidated 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 as at 1 January 2008. The carrying amount of intangible assets is subject to an annual impairment test, and annual impairment, if any, is charged to the consolidated 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 an 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 an impairment loss is credited to the consolidated 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.

2.4 Summary of Significant Accounting Policies (Continued)

(17) Financial guarantees (Continued)

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

(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 consolidated income statement.

(20) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated 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 consolidated 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, the Group's mandatory contributions vest fully with the employee.

(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 transactions, whereby employees render services as consideration for equity-settled transactions.

2.4 Summary of Significant Accounting Policies (Continued)

(21) Employee benefits (Continued)

(b) Share option scheme (Continued)

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 consolidated 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 will remain in retained profits within reserves in the consolidated 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 Estimates

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.

3. Significant Accounting Estimates (Continued)

Estimation uncertainty (Continued)

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 consolidated 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 2010 was HK\$242,342,000 (2009: 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 debt 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 table represents revenue and profit information for these segments for the year ended 31 December 2010 and 2009, and certain asset and liability information regarding business segments as at 31 December 2010 and 2009.

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue								
Net interest income	1,256,836	1,175,938	40	60	-	-	1,256,876	1,175,998
Other operating income:								
Fees and commission income	143,260	114,181	101,703	84,218	-	-	244,963	198,399
Others	15,337	19,444	-	360	6,228	2,892	21,565	22,696
Gains less losses from disposal of available-for-sale financial assets	-	-	-	9,699	-	-	-	9,699
Operating income	1,415,433	1,309,563	101,743	94,337	6,228	2,892	1,523,404	1,406,792
Segment results	486,270	212,486	50,620	45,615	6,986	10,183	543,876	268,284
Share of profits and losses of a jointly-controlled entity							-	-
Profit before tax							543,876	268,284
Tax							(90,125)	(21,113)
Profit for the year							453,751	247,171
Segment assets other than interests in a jointly-controlled entity and intangible assets	36,162,655	34,890,689	382,874	649,793	47,338	49,568	36,592,867	35,590,050
Interests in a jointly-controlled entity	1,513	1,513	-	-	-	-	1,513	1,513
Intangible assets	-	-	718	718	-	-	718	718
Goodwill	242,342	242,342	-	-	-	-	242,342	242,342
Unallocated assets:	36,406,510	35,134,544	383,592	650,511	47,338	49,568	36,837,440	35,834,623
Deferred tax assets and tax recoverable							10,534	30,642
Total assets							36,847,974	35,865,265
Segment liabilities	31,641,399	30,661,541	228,923	526,033	59,984	56,752	31,930,306	31,244,326
Unallocated liabilities:							48,165	24,569
Deferred tax liabilities and tax payable								
Total liabilities							31,978,471	31,268,895
Other segment information								
Additions to non-current assets – capital expenditure	16,933	22,809	-	-	-	-	16,933	22,809
Depreciation of property, equipment and land held under finance leases	24,594	23,764	-	-	-	-	24,594	23,764
Changes in fair value of investment properties	-	-	-	-	(2,478)	(7,291)	(2,478)	(7,291)
Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale financial assets	281,045	509,650	-	-	-	-	281,045	509,650
Net loss on disposal of property and equipment	108	45	-	-	-	-	108	45

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

	2010 HK\$'000	2009 HK\$'000
Interest income from:		
Loan and advances and receivables	1,386,727	1,354,351
Short term placements and placements with banks	29,316	47,920
Held-to-maturity investments	73,067	53,420
	1,489,110	1,455,691
Interest expense on:		
Deposits from banks and financial institutions	8,406	10,934
Deposits from customers	220,370	262,545
Bank loans	3,458	6,214
	232,234	279,693

Interest income and interest expenses for the year ended 31 December 2010, calculated using effective interest method, on financial assets and financial liabilities which are not designated at fair value through profit or loss amounted to HK\$1,489,110,000 and HK\$232,234,000, respectively (2009: HK\$1,455,691,000 and HK\$279,693,000). Interest income of the impaired loans and advances for the year ended 31 December 2010 amounted to HK\$10,850,000 (2009: HK\$10,645,000).

Notes to Financial Statements

6. Other Operating Income

	2010 HK\$'000	2009 HK\$'000
Fees and commission income:		
Retail and commercial banking	144,357	115,260
Wealth management services, stockbroking and securities management	101,703	84,218
	246,060	199,478
Less: Fees and commission expenses	(1,097)	(1,079)
Net fees and commission income	244,963	198,399
Net rental income	6,228	5,293
Gains less losses arising from dealing in foreign currencies	11,668	10,261
Dividend income from unlisted investments	980	980
Dividend income from listed investments	13	374
Others	2,676	5,788
	266,528	221,095

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 2010 and 2009.

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	2010 HK\$'000	2009 HK\$'000
Staff costs (including directors' remuneration, note 9):			
Salaries and other staff costs		356,253	283,311
Pension contributions		15,627	14,754
Less: Forfeited contributions		(46)	(8)
Net retired benefit schemes		15,581	14,746
		371,834	298,057
Other operating expenses:			
Operating lease rentals on leasehold buildings		47,469	44,456
Depreciation of property and equipment and land held under finance leases (Restated)	22, 23	24,594	23,764
Auditors' remuneration		2,993	3,045
Administrative and general expenses		63,094	56,521
Others		190,977	167,344
Operating expenses before changes in fair value of investment properties		700,961	593,187

7. Operating Expenses (Continued)

As at 31 December 2010, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil). The current year credits arose in respect of staff who left the schemes during the year.

8. Impairment Allowances

	2010 HK\$'000	2009 HK\$'000
Net charge for/(write-back of) impairment allowances:		
– loans and advances	278,731	514,342
– trade bills, accrued interest and receivables	2,314	(4,692)
	281,045	509,650
Net charge for/(write-back of) impairment losses and allowances:		
– individually assessed	357,869	479,086
– collectively assessed	(76,824)	30,564
	281,045	509,650
Of which:		
– new impairment losses and allowances (including any amount directly written off during the year)	509,323	626,373
– releases and recoveries	(228,278)	(116,723)
Net charge to the consolidated income statement	281,045	509,650

There were no impairment allowances for financial assets other than loans and advances and receivables for the years ended 31 December 2010 and 2009.

9. Directors' Remuneration

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

	2010 HK\$'000	2009 HK\$'000
Fees	860	779
Other emoluments	4,226	3,751
	5,086	4,530

Notes to Financial Statements

10. Tax

	2010 HK\$'000	2009 HK\$'000
Current tax charge:		
Hong Kong	82,333	38,861
Elsewhere	5,323	3,905
Over-provisions in prior years	(1,579)	(6,549)
Deferred tax charge/(credit), net (note 29)	4,048	(15,104)
	90,125	21,113

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 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 to the effective tax rates, are as follows:

	Hong Kong		2010 Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	511,860		32,016		543,876	
Tax at the applicable tax rate	84,457	16.5	7,044	22.0	91,501	16.9
Effect on change in tax rate	-	-	40	0.1	40	-
Estimated tax effect of net expenses/ (income) that are not deductible/ (taxable)	594	0.1	(420)	(1.3)	174	-
Estimated tax losses not recognised	3	-	-	-	3	-
Estimated tax losses from previous periods utilised	(14)	-	-	-	(14)	-
Adjustments in respect of current tax of previous periods	1,848	0.4	(3,427)	(10.7)	(1,579)	(0.3)
Tax charge at the Group's effective rate	86,888	17.0	3,237	10.1	90,125	16.6

10. Tax (Continued)

	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

11. Profit Attributable to Owners of the Bank

The consolidated profit attributable to owners of the Bank for the year ended 31 December 2010 included a profit of HK\$270,800,000 (2009: HK\$184,965,000) which has been dealt with in the financial statements of the Bank (note 31).

12. Dividends

(a) Dividends approved and paid during the year

	2010	2009	2010	2009
	HK\$ per ordinary share	HK\$ per ordinary share	HK\$'000	HK\$'000
Interim dividend	7.187	–	106,483	–
Final dividend in respect of previous year	5.895	–	87,340	–
	13.082	–	193,823	–

Final dividend for the year ended 31 December 2009 was paid in year 2010 with the consent of shareholders at the 2010 Annual General Meeting.

Notes to Financial Statements

12. Dividends (Continued)

(b) Dividends attributable to the year

	2010 HK\$ per ordinary share	2009 HK\$ per ordinary share	2010 HK\$'000	2009 HK\$'000
Interim dividend	7.187	–	106,483	–
Proposed final dividend	7.162	5.895	106,112	87,340
	14.349	5.895	212,595	87,340

The proposed final dividend was recommended after respective year end and had not been recognised as a liability at respective year end date. The proposed financial dividend of 2009 was approved in 2010 and proposed final dividend of 2010 was subject to the approval of shareholders at the 2011 Annual General Meeting.

13. Cash and Short Term Placements

	Group		Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Cash in hand	123,198	122,177	109,218	107,167
Placements with banks and financial institutions	558,749	603,362	499,955	519,166
Money at call and short notice	5,336,662	4,848,404	5,325,296	4,847,225
	6,018,609	5,573,943	5,934,469	5,473,558

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.

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

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

	Group and Bank	
	2010 HK\$'000	2009 HK\$'000
Placements with banks and financial institutions	723,715	868,483

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

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

15. Loans and Advances and Receivables

	Group		Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Loans and advances to customers	26,714,360	24,366,397	22,402,423	20,215,232
Trade bills	31,170	70,286	31,170	70,286
Loans and advances, and trade bills	26,745,530	24,436,683	22,433,593	20,285,518
Accrued interest	81,829	69,682	33,639	25,885
Other receivables	26,827,359	24,506,365	22,467,232	20,311,403
	3,768	2,219	3,768	2,219
Gross loans and advances and receivables	26,831,127	24,508,584	22,471,000	20,313,622
Less: Impairment allowances for loans and advances and receivables				
– Individually assessed	(171,645)	(160,365)	(80,867)	(115,761)
– Collectively assessed	(32,876)	(109,654)	(20,000)	(25,616)
	(204,521)	(270,019)	(100,867)	(141,377)
Loans and advances and receivables	26,626,606	24,238,565	22,370,133	20,172,245

Over 90% of the loans and advances and receivables are unrated exposures. Over 90% of collateral for the Group's and Bank's secured loans and advances and receivables are properties, cash, listed shares, taxi licences, public light bus licences and car bodies.

Loans and advances and receivables are summarised as follows:

	Group		Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Neither past due nor impaired loans and receivables	25,961,121	23,503,246	21,956,271	19,698,546
Past due but not impaired loans and advances and receivables	539,224	472,419	319,011	264,247
Individually impaired loans and advances	315,307	526,448	180,243	344,358
Individually impaired receivables	15,475	6,471	15,475	6,471
Total loans and advances and receivables	26,831,127	24,508,584	22,471,000	20,313,622

About 63% of "Neither past due nor impaired loans and receivables" were residential property mortgage loans, commercial property mortgage loans and hire purchase loans secured by cash, properties, taxi licences and vehicles.

Notes to Financial Statements

15. Loans and Advances and Receivables (Continued)

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

	Group				Bank			
	2010		2009		2010		2009	
	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	90,527	0.34	175,146	0.72	466	-	74,503	0.37
One year or less but over six months	5,621	0.02	72,264	0.30	1,340	-	68,071	0.34
Over one year	175,919	0.66	103,731	0.42	175,919	0.79	103,731	0.51
Loans and advances overdue for more than three months	272,067	1.02	351,141	1.44	177,725	0.79	246,305	1.22
Rescheduled loans and advances overdue for three months or less	39,328	0.15	79,383	0.33	2,259	0.01	4,129	0.02
Impaired accounts overdue for three months or less	3,912	0.01	95,924	0.39	259	-	93,924	0.46
Total overdue and impaired loans and advances	315,307	1.18	526,448	2.16	180,243	0.80	344,358	1.70

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

	Group and Bank	
	2010 HK\$'000	2009 HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three month	12	2,492
One year or less but over six months	1,778	329
Over one year	13,683	3,573
Trade bills, accrued interest and other receivables overdue for more than three months	15,473	6,394
Impaired accounts overdue for three months or less	2	77
Total overdue and impaired trade bills, accrued interest and other receivables	15,475	6,471

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.

15. Loans and Advances and Receivables (Continued)

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

2010

	Hong Kong HK\$'000	Group Mainland China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Bank 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	153,695	133,845	287,540	59,353	133,845	193,198
Individual impairment allowances	92,392	55,942	148,334	23,803	55,942	79,745
Collective impairment allowances	-	-	-	-	-	-
Current market value and fair value of collateral			252,189			252,189
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	196,937	133,845	330,782	61,873	133,845	195,718
Individual impairment allowances	115,703	55,942	171,645	24,925	55,942	80,867
Collective impairment allowances	-	-	-	-	-	-
Current market value and fair value of collateral			253,689			253,689

Notes to Financial Statements

15. 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)

2009

	Hong Kong HK\$'000	Group Mainland China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Bank 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

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.

15. 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	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	252,189	182,720	252,189	182,720
Covered portion of overdue loans and advances	88,701	91,885	88,701	91,885
Uncovered portion of overdue loans and advances	183,366	259,256	89,024	154,420

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 2010, the total value of repossessed assets of the Group amounted to HK\$26,190,000 (2009: HK\$25,715,000).

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

	Group				Bank			
	2010 Gross amount HK\$'000	Percentage of total loans and advances (%)	2009 Gross amount HK\$'000	Percentage of total loans and advances (%)	2010 Gross amount HK\$'000	Percentage of total loans and advances (%)	2009 Gross amount HK\$'000	Percentage of total loans and advances (%)
Loans and advances overdue less than three months	538,292	2.01	470,044	1.93	318,079	1.42	261,872	1.30
Rescheduled but not impaired loans and advances	-	-	-	-	-	-	-	-
	538,292	2.01	470,044	1.93	318,079	1.42	261,872	1.30
Trade bills, accrued interest and other receivables overdue less than three months	932		2,375		932		2,375	

Notes to Financial Statements

15. Loans and Advances and Receivables (Continued)

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

2010

	Group		Total HK\$'000	Bank		Total HK\$'000
	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000		Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000	
	At 1 January 2010	160,365		109,654	270,019	
Amounts written off	(478,694)	-	(478,694)	(74,611)	-	(74,611)
Impairment losses and allowances charged to the consolidated income statement	509,323	-	509,323	59,066	-	59,066
Impairment losses and allowances released to the consolidated income statement	(151,454)	(76,824)	(228,278)	(24,110)	(5,662)	(29,772)
Net charge of impairment losses and allowances	357,869	(76,824)	281,045	34,956	(5,662)	29,294
Loans and advances and receivables recovered	131,181	-	131,181	3,837	-	3,837
Exchange difference	924	46	970	924	46	970
At 31 December 2010	171,645	32,876	204,521	80,867	20,000	100,867
Deducted from:						
Loans and advances	167,490	32,667	200,157	76,712	19,791	96,503
Trade bills, accrued interest and other receivables	4,155	209	4,364	4,155	209	4,364
	171,645	32,876	204,521	80,867	20,000	100,867

Impairment for some overdue consumer financing loans of Public Finance, which was collectively assessed in prior years, was assessed individually in 2010. This resulted in an increase in individual impairment allowance of HK\$62,618,000 and corresponding reduction in collective impairment allowance.

15. Loans and Advances and Receivables (Continued)

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

2009

	Individual impairment allowances HK\$'000	Group Collective impairment allowances HK\$'000	Total HK\$'000	Individual impairment allowances HK\$'000	Bank 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 consolidated income statement	595,809	30,564	626,373	104,797	4,592	109,389
Impairment losses and allowances released to the consolidated 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

Notes to Financial Statements

15. Loans and Advances and Receivables (Continued)

(g) Finance lease receivables

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

2010

	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	422,145	327,058	382,384	297,094
In the second to fifth years, inclusive	1,129,905	863,244	1,009,728	774,822
Over five years	3,853,487	3,287,420	3,462,350	2,957,841
	5,405,537	4,477,722	4,854,462	4,029,757
Less: Unearned finance income	(927,815)		(824,705)	
Present value of minimum lease payments receivable	4,477,722		4,029,757	

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	

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.

16. Available-for-Sale Financial Assets

	Group		Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 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)	-	-
Sub-total	-	-	-	-
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	6,804	6,804	6,804

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

The carrying amount of Lehman Brothers Minibonds amounted to nil as full impairment has been made for the Lehman Brothers Minibonds repurchased from eligible customers in 2009.

17. Held-to-Maturity Investments

	Group and Bank	
	2010 HK\$'000	2009 HK\$'000
Unlisted:		
Certificates of deposit held	147,767	812,130
Treasury bills (including Exchange Fund Bills)	1,099,681	499,746
Other debt securities	1,462,328	2,904,758
	2,709,776	4,216,634
Analysed by type of issuers:		
- Central government	1,099,681	499,746
- Banks and other financial institutions	1,610,095	3,716,888
	2,709,776	4,216,634

Impairment allowances of held-to-maturity investments were nil as at 31 December 2010 and 2009. There were no movement in impairment allowances for the years ended 31 December 2010 and 2009.

There were neither impaired nor overdue held-to-maturity investments as at 31 December 2010 and 2009. There were no listed held-to-maturity investments as at 31 December 2010 and 2009.

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.

Notes to Financial Statements

18. Interests in Subsidiaries

	Bank	
	2010	2009
	HK\$'000	HK\$'000
Unlisted shares, at cost	1,756,697	1,756,697
Provision for investment in subsidiaries	(700)	(700)
	1,755,997	1,755,997

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 activities
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

19. Interest in a Jointly-Controlled Entity

	Group		Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 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 which is accounted for using the equity method:

	2010 HK\$'000	2009 HK\$'000
Share of the jointly-controlled entity's assets and liabilities:		
Assets	1,774	1,893
Liabilities	(261)	(380)
Net assets	1,513	1,513
Share of the jointly-controlled entity's profits and losses:		
Total income	1,614	1,440
Total expenses	(1,614)	(1,440)
Profit/(loss) after tax	–	–

Notes to Financial Statements

20. Other Assets

	Group		Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Interest receivables from authorised institutions	3,108	2,187	3,108	2,187
Other debtors, deposits and prepayments	266,879	439,242	174,841	585,353
	269,987	441,429	177,949	587,540

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

21. Intangible Assets

	Group	
	2010 HK\$'000	2009 HK\$'000
Cost:		
At the beginning of the year	1,923	1,563
Addition	–	360
At the end of the year	1,923	1,923
Accumulated impairment:		
At the beginning of the year and at the end of the year	1,205	1,205
Net carrying amount:		
At the beginning of the year	718	358
Addition	–	360
At the end of the year	718	718

Intangible assets of the Group represent trading rights which are retained for stock trading and stockbroking activities, and have indefinite useful lives. They comprise five units (2009: five units) of Stock Exchange Trading Right and one unit (2009: 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 2010 and 2009.

22. Property and Equipment

2010

	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 2010	16,647	168,395	185,042	14,887	145,902	160,789
Additions	-	16,933	16,933	-	11,888	11,888
Transfer from investment properties	443	-	443	-	-	-
Disposals/write-off	-	(36,437)	(36,437)	-	(28,420)	(28,420)
At 31 December 2010	17,090	148,891	165,981	14,887	129,370	144,257
Accumulated depreciation:						
At 1 January 2010	4,193	108,089	112,282	3,575	97,725	101,300
Provided during the year	334	21,044	21,378	280	15,476	15,756
Disposals/write-off	-	(36,329)	(36,329)	-	(28,328)	(28,328)
Exchange difference	41	-	41	41	-	41
At 31 December 2010	4,568	92,804	97,372	3,896	84,873	88,769
Net book value:						
At 31 December 2010	12,522	56,087	68,609	10,991	44,497	55,488
At 31 December 2009	12,454	60,306	72,760	11,312	48,177	59,489

Notes to Financial Statements

22. Property and Equipment (Continued)

2009

	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 2009	15,844	204,994	220,838	14,887	184,146	199,033
Additions	–	22,809	22,809	–	17,508	17,508
Disposals/write-off	803	–	803	–	–	–
Acquisition of subsidiaries	–	(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

No valuation has been made for the above items of property and equipment for the years ended 31 December 2010 and 2009.

23. Land held under Finance Leases

	Group (Restated) HK\$'000	Bank (Restated) HK\$'000
Cost:		
At 1 January 2009	125,034	131,693
Transfer from investment properties	7,897	–
At 31 December 2009 and 1 January 2010	132,931	131,693
Transfer from investment properties	4,265	–
At 31 December 2010	137,196	131,693
Accumulated depreciation and impairment:		
At 1 January 2009	19,665	17,891
Depreciation provided during the year	3,059	2,723
At 31 December 2009 and 1 January 2010	22,724	20,614
Depreciation provided during the year	3,216	2,723
At 31 December 2010	25,940	23,337
Net carrying amount:		
At 31 December 2010	111,256	108,356
At 31 December 2009	110,207	111,079
At 1 January 2009	105,369	113,802
	Group	Bank
	31/12/2010	31/12/2009
	HK\$'000	HK\$'000
	31/12/2010	31/12/2009
	HK\$'000	HK\$'000
Net book value:		
Medium term leases	104,078	103,021
Long term leases	7,178	7,186
	111,256	110,207
		105,369
	108,356	111,079
		113,802

Following the adoption of HK-Int 4, land leases were classified from “Land lease prepayments held under operating leases” to “Land held under finance leases”.

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

Notes to Financial Statements

24. Investment Properties

	Group		Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Carrying amount at 1 January	49,568	58,877	20,999	19,690
Disposals	-	(7,900)	-	-
Transfer to property and equipment	(4,708)	(8,700)	-	-
Carrying amount before change in fair value	44,860	42,277	20,999	19,690
Change in fair value	2,478	7,291	1,050	1,309
Carrying amount at 31 December	47,338	49,568	22,049	20,999

At 31 December 2010, investment properties with a carrying amount of HK\$44,860,000 (2009: HK\$42,277,000) were revalued at HK\$47,338,000 (2009: HK\$49,568,000) according to a 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\$2,478,000 (2009: HK\$7,291,000) resulting from the above valuation has been credited to the consolidated 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.

25. Goodwill

	Group	
	2010 HK\$'000	2009 HK\$'000
Cost:		
At the beginning and 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 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 a 10-year business plan which is appropriate after considering the sustainability of business growth, stability of core business developments, long term economic cycle and achievement of business targets extrapolated from a track record of financial results. All cash flows are discounted at a discount rate of 3% and 7% under baseline and stressed scenarios, respectively. Management's financial model assumes an average growth rates from 5% to 6% 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 are based on the rates which reflect specific risks relating to the CGU.

No impairment loss has been recognised in respect of goodwill for the years ended 31 December 2010 and 2009 as its value in use exceeds the carrying amount.

26. Customer Deposits at Amortised Cost

	Group		Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Demand deposits and current accounts	2,051,711	1,387,207	2,194,623	1,473,432
Savings deposits	4,563,894	5,938,346	4,564,035	5,938,570
Time, call and notice deposits	23,129,368	22,101,374	20,017,014	18,688,334
	29,744,973	29,426,927	26,775,672	26,100,336

27. Unsecured Bank Loans at Amortised Cost

	Group		Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Unsecured bank loans, repayable on demand or within a period not exceeding one year	878,939	–	798,939	–

The amount repayable on demand of the Group was a term loan of HK\$80,000,000 at 31 December 2010 (2009: Nil). The term loan is callable by the lender, but management does not expect the lender to exercise its right to demand repayment in normal circumstances.

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

28. Other Liabilities

	Group		Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Interest payable	46,169	40,736	38,576	34,235
Creditors, accruals and other payables	374,408	750,367	218,237	638,866
Due to subsidiaries	–	–	39,820	132,817
	420,577	791,103	296,633	805,918

The amounts due to subsidiaries included in the Bank's other liabilities were unsecured, interest-free and had 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

Deferred tax assets

	At 1 January 2009 HK\$'000	Effect of change in tax rates charged to income statement HK\$'000	Deferred tax credited to income statement HK\$'000	At 31 December 2009 and 2010 HK\$'000	Effect of change in tax rates charged to income statement HK\$'000	Deferred tax credited/ (charged) to income statement HK\$'000	At 31 December 2010 HK\$'000
Impairment allowances for loans and advances and receivables	4,279	-	3,863	8,142	71	1,420	9,633
Recoverable tax loss	-	-	5,225	5,225	-	(5,225)	-
	4,279	-	9,088	13,367	71	(3,805)	9,633

Deferred tax liabilities

	At 1 January 2009 HK\$'000	Effect of change in tax rates charged to income statement HK\$'000	Deferred tax credited to income statement HK\$'000	At 31 December 2009 and 2010 HK\$'000	Effect of change in tax rates charged to income statement HK\$'000	Deferred tax (credited)/ charged to income statement HK\$'000	At 31 December 2010 HK\$'000
Depreciation allowance in excess of related depreciation	9,831	119	(7,338)	2,612	111	(207)	2,516
Revaluation of investment properties	3,127	-	1,203	4,330	-	410	4,740
	12,958	119	(6,135)	6,942	111	203	7,256

29. Deferred Tax (Continued)

Bank

Deferred tax assets

	At 1 January 2009 HK\$'000	Effect of change in tax rates charged to income statement HK\$'000	Deferred tax credited to income statement HK\$'000	At 31 December 2009 and 1 January 2010 HK\$'000	Effect of change in tax rates charged to income statement HK\$'000	Deferred tax credited/ (charged) to income statement HK\$'000	At 31 December 2010 HK\$'000
Impairment allowances for loans and advances and receivables	2,979	–	3,239	6,218	71	1,219	7,508
Recoverable tax loss	–	–	5,225	5,225	–	(5,225)	–
	2,979	–	8,464	11,443	71	(4,006)	7,508

Deferred tax liabilities

	At 1 January 2009 HK\$'000	Effect of change in tax rates charged to income statement HK\$'000	Deferred tax credited to income statement HK\$'000	At 31 December 2009 and 1 January 2010 HK\$'000	Effect of change in tax rates charged to income statement HK\$'000	Deferred tax (credited)/ charged to income statement HK\$'000	At 31 December 2010 HK\$'000
Depreciation allowance in excess of related depreciation	7,540	119	(4,461)	3,198	111	(303)	3,006
Revaluation of investment properties	3,127	–	216	3,343	–	173	3,516
	10,667	119	(4,245)	6,541	111	(130)	6,522

Notes to Financial Statements

30. Share Capital

	Bank 2010 HK\$'000	2009 HK\$'000
Authorised:		
20,000,000 (2009: 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	
	2010	2009	2010 HK\$'000	2009 HK\$'000
Issued and fully paid:				
At 1 January and 31 December	14,816,000	14,816,000	1,481,600	1,481,600

31. Reserves

Group

	Share premium account HK\$'000	Group reconstruction reserve HK\$'000	Available-for- sale financial assets revaluation reserve HK\$'000	Capital reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
At 1 January 2009	1,372,445	3,065	(1,680)	17,660	304,551	1,134,898	35,060	2,865,999
Profit for the year	-	-	-	-	-	247,171	-	247,171
Exchange differences	-	-	-	-	-	-	(80)	(80)
Other comprehensive income	-	-	1,680	-	-	-	-	1,680
Transfer to retained profits	-	-	-	-	(38,170)	38,170	-	-
At 31 December 2009 and 1 January 2010	1,372,445	3,065	-	17,660	266,381	1,420,239	34,980	3,114,770
Profit for the year	-	-	-	-	-	453,751	-	453,751
Exchange differences	-	-	-	-	-	-	13,205	13,205
Transfer from retained profits	-	-	-	-	55,943	(55,943)	-	-
Dividends paid in respect of previous year (note 12)	-	-	-	-	-	(87,340)	-	(87,340)
Dividends paid in respect of current year (note 12)	-	-	-	-	-	(106,483)	-	(106,483)
At 31 December 2010	1,372,445	3,065	-	17,660	322,324	1,624,224	48,185	3,387,903

31. Reserves (Continued)

Bank

	Share premium account HK\$'000	Capital reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
At 1 January 2009	1,372,445	3,660	202,403	1,358,918	35,060	2,972,486
Profit for the year	-	-	-	184,965	-	184,965
Exchange differences	-	-	-	-	(80)	(80)
Transfer to retained profits	-	-	(2,378)	2,378	-	-
At 31 December 2009 and 1 January 2010	1,372,445	3,660	200,025	1,546,261	34,980	3,157,371
Profit for the year	-	-	-	270,800	-	270,800
Exchange differences	-	-	-	-	13,205	13,205
Transfer from retained profits	-	-	46,796	(46,796)	-	-
Dividends paid in respect of previous year (note 12)	-	-	-	(87,340)	-	(87,340)
Dividends paid in respect of current year (note 12)	-	-	-	(106,483)	-	(106,483)
At 31 December 2010	1,372,445	3,660	246,821	1,576,442	48,185	3,247,553

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 2010 as defined in the Guideline. The regulatory reserve was 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 2010 HK\$'000	2009 HK\$'000
Aggregate amount of principal and interest outstanding at the end of the year	227	244
Maximum aggregate amount of principal and interest outstanding during the year	764	848

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

Notes to Financial Statements

33. Off-Balance Sheet Exposure

(a) Contingent liabilities, commitments and derivatives

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

Group

	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	2010 Credit risk- weighted amount HK\$'000	Positive fair value- assets HK\$'000	Negative fair value- liabilities HK\$'000
Direct credit substitutes	249,122	249,122	29,633	-	-
Transaction-related contingencies	7,278	3,639	2,800	-	-
Trade-related contingencies	108,931	21,785	16,055	-	-
Forward deposits placed	-	-	-	-	-
Forward asset purchases	9,356	9,356	1,871	-	-
	374,687	283,902	50,359	-	-
Derivatives held for trading (note 33 (b)):					
Foreign exchange rate contracts	579,220	14,888	47	10,145	5,435
Interest rate swaps	200,000	-	-	22	-
	779,220	14,888	47	10,167	5,435
Other commitments with an original maturity of:					
Up to one year	-	-	-	-	-
Over one year	261,004	130,502	130,502	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	4,166,068	-	-	-	-
	5,580,979	429,292	180,908	10,167	5,435
Capital commitment contracted for, but not provided in the statement of financial position	7,150				

33. Off-Balance Sheet Exposure (Continued)

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

Bank

	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	2010 Credit risk- weighted amount HK\$'000	Positive fair value- assets HK\$'000	Negative fair value- liabilities HK\$'000
Direct credit substitutes	249,122	249,122	29,633	-	-
Transaction-related contingencies	7,278	3,639	2,800	-	-
Trade-related contingencies	108,931	21,785	16,055	-	-
Forward forward deposits placed	-	-	-	-	-
Forward asset purchases	9,356	9,356	1,871	-	-
	374,687	283,902	50,359	-	-
Derivatives held for trading (note 33(b)):					
Foreign exchange rate contracts	579,220	14,888	47	10,145	5,435
Interest rate swaps	200,000	-	-	22	-
	779,220	14,888	47	10,167	5,435
Other commitments with an original maturity of:					
Up to one year	-	-	-	-	-
Over one year	261,004	130,502	130,502	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	4,075,936	-	-	-	-
	5,490,847	429,292	180,908	10,167	5,435
Capital commitment contracted for, but not provided in the statement of financial position	6,629				

Notes to Financial Statements

33. Off-Balance Sheet Exposure (Continued)

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

Group

	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	2009 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 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:					
Up to one year	–	–	–	–	–
Over 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 for, but not provided in the statement of financial position	6,723				

33. Off-Balance Sheet Exposure (Continued)

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

Bank

	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	2009 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:					
Up to one year	–	–	–	–	–
Over 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 for, but not provided in the statement of financial position	5,406				

33. Off-Balance Sheet Exposure (Continued)

(a) Contingent liabilities, 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 2010 and 2009, 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 financial instruments:

Currency forwards represent commitments to purchase foreign and domestic currencies, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell 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 consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's and the Bank's exposure to credit or price risk. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

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 2010 and 2009, the Group and the Bank had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	Group		Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Within one year	1,449	2,269	2,319	2,806
In the second to fifth years, inclusive	653	524	958	2,433
	2,102	2,793	3,277	5,239

(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 2010 and 2009, the Group and the Bank had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	Group		Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Within one year	51,333	67,123	27,556	37,977
In the second to fifth years, inclusive	25,702	34,270	16,364	18,546
	77,035	101,393	43,920	56,523

Notes to Financial Statements

35. Related Party Transactions

The Group had the following major 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 2010 HK\$'000	2009 HK\$'000
Related party transactions included in the consolidated income statement:			
Management fees from the ultimate holding company	(a)	–	241
Management fees from the immediate holding company	(a)	–	306
Management fees from fellow subsidiaries	(a)	1,061	418
Management fees to the immediate holding company	(a)	1,740	3,135
Rental income from the ultimate holding company	(b)	–	211
Rent paid to the immediate holding company	(c)	32,776	24,782
Interest income from the ultimate holding company	(d)	1,311	20,818
Interest income from key management personnel	(e)	9	6
Interest paid to the ultimate holding company	(f)	1,574	275
Interest paid to the immediate holding company	(f)	5	417
Interest paid to fellow subsidiaries and an affiliated company	(f)	2,563	24,088
Interest paid to key management personnel	(f)	47	2
Commission fee income from key management personnel	(j)	17	35
Commission and service fee paid to fellow subsidiaries	(g)	402	539
Building management fee to the immediate holding company	(c)	109	82
Key management personnel compensation:			
Short-term employee benefits	(h)	4,228	3,746
Post employment benefits	(h)	206	186
Post employment benefits for employees other than key management personnel	(h)	15,375	14,560

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

35. Related Party Transactions (Continued)

	Notes	Group		Bank	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Related party transactions included in the consolidated statement of financial position:					
Cash and short term funds with the ultimate holding company	(d)	13,070	736,218	12,902	735,842
Deposits and placements with the ultimate holding company	(d)	–	620,408	–	620,408
Interest receivable from the ultimate holding company	(d)	–	541	–	541
Deposits from the ultimate holding company	(f)	210,851	344,820	210,851	344,820
Deposits from the immediate holding company	(f)	34,875	39,089	34,875	39,089
Deposits from fellow subsidiaries and an affiliated company	(f)	525,825	505,753	525,825	505,753
Customer deposits from key management personnel	(f)	4,610	18,421	4,610	18,421
Interest payable to the ultimate holding company	(f)	18	6	18	6
Interest payable to fellow subsidiaries and an affiliated subsidiary	(f)	466	211	466	211
Interest payable to key management personnel	(f)	5	2	5	2
Loans to key management personnel	(e)	634	752	58	56
Rental deposits from a fellow subsidiary	(b)	44	44	44	44
Rental deposits to the immediate holding company	(c)	1,243	1,233	1,100	1,090
Amounts due to the immediate holding company included in other liabilities	(i)	493	733	493	733
Amounts due from a fellow subsidiary included in other assets	(i)	7,755	7,587	–	5,757

35. Related Party Transactions (Continued)

Notes:

- (a) Management fees arose in respect of administrative services provided to/from the ultimate holding company, immediate holding company and fellow subsidiaries by/to the Group. They were charged based on costs incurred during the years.
- (b) Rental income was derived from properties leased to the ultimate holding company as its staff quarters and office.

Rental deposit was derived from a property leased to a fellow subsidiary as its office.
- (c) Rent paid, rental deposits and building management fee were derived from properties rented from the immediate holding company 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 consolidated 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 consolidated 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 the Group.
- (i) These balances include other payables and receivables to the immediate holding company and a fellow subsidiary respectively.
- (j) Commission income was received from the key management personnel of the Group for securities dealings through the Group companies.

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 tables do not include the fair values of non-financial assets and non-financial liabilities.

Group

	2010			2009		
	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	6,018,609	6,018,609	-	5,573,943	5,573,943	-
Placements with banks and financial institutions maturing after one month but not more than twelve months	723,715	723,715	-	868,483	868,483	-
Derivative financial instruments	10,167	10,167	-	11,657	11,657	-
Loans and advances and receivables	26,626,606	26,626,606	-	24,238,565	24,238,565	-
Available-for-sale financial assets	6,804	6,804	-	6,804	6,804	-
Held-to-maturity investments	2,709,776	2,708,954	(822)	4,216,634	4,214,088	(2,546)
Other assets	269,987	269,987	-	441,429	441,429	-
Financial liabilities						
Deposits and balances of banks and other financial institutions at amortised cost	680,382	680,382	-	1,024,628	1,024,628	-
Derivative financial instruments	5,435	5,435	-	1,668	1,668	-
Customer deposits at amortised cost	29,744,973	29,744,973	-	29,426,927	29,426,927	-
Certificates of deposit issued at amortised cost	200,000	200,000	-	-	-	-
Unsecured bank loans at amortised cost	878,939	878,939	-	-	-	-
Other liabilities	420,577	420,577	-	791,103	791,103	-
Total unrecognised loss			(822)			(2,546)

Notes to Financial Statements

36. Fair Value of Financial Instruments (Continued)

Bank

	2010			2009		
	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	5,934,469	5,934,469	-	5,473,558	5,473,558	-
Placements with banks and financial institutions maturing after one month but not more than twelve months	723,715	723,715	-	868,483	868,483	-
Derivative financial instruments	10,167	10,167	-	11,657	11,657	-
Loans and advances and receivables	22,370,133	22,370,133	-	20,172,245	20,172,245	-
Available-for-sale financial assets	6,804	6,804	-	6,804	6,804	-
Held-to-maturity investments	2,709,776	2,708,954	(822)	4,216,634	4,214,088	(2,546)
Other assets	177,949	177,949	-	587,540	587,540	-
Financial liabilities						
Deposits and balances of banks and other financial institutions at amortised cost	1,070,440	1,070,440	-	1,760,262	1,760,262	-
Derivative financial instruments	5,435	5,435	-	1,668	1,668	-
Customer deposits at amortised cost	26,775,672	26,775,672	-	26,100,336	26,100,336	-
Certificates of deposit issued at amortised cost	200,000	200,000	-	-	-	-
Unsecured bank loans at amortised cost	798,939	798,939	-	-	-	-
Other liabilities	296,633	296,633	-	805,918	805,918	-
Total unrecognised loss			(822)			(2,546)

36. Fair Value of Financial Instruments (Continued)

(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.

(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:

	2010			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets:				
Derivative financial instruments	–	10,167	–	10,167
Available-for-sale financial assets	–	–	6,804	6,804
	–	10,167	6,804	16,971
Financial liabilities:				
Derivative financial instruments	–	5,435	–	5,435

Notes to Financial Statements

36. Fair Value of Financial Instruments (Continued)

(b) Determination of fair value and fair value hierarchy (Continued)

	2009			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 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

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 no gain or loss and nil comprehensive income reported in consolidated income statement and consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the year ended 31 December 2010.

There was a loss of HK\$42,962,000 and nil comprehensive income reported in consolidated income statement and consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the year ended 31 December 2009.

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 2010 and 2009.

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

	2010							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Financial assets:								
Cash and short term placements	681,947	5,336,662	-	-	-	-	-	6,018,609
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	527,254	196,461	-	-	-	723,715
Loans and advances and receivables	553,607	1,634,495	774,204	2,765,928	8,316,844	12,583,473	202,576	26,831,127
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	1,720,179	839,863	147,375	2,359	-	-	2,709,776
Other assets	447	212,516	396	649	10	-	55,969	269,987
Foreign exchange contracts (gross)	-	573,001	6,219	-	-	-	-	579,220
Net interest rate swap	-	-	22	-	-	-	-	22
Total financial assets	1,236,001	9,476,853	2,147,958	3,110,413	8,319,213	12,583,473	265,349	37,139,260
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	199,250	291,132	115,000	75,000	-	-	-	680,382
Customer deposits at amortised cost	6,625,964	11,278,914	9,274,125	2,427,200	138,770	-	-	29,744,973
Certificates of deposit issued at amortised cost	-	-	200,000	-	-	-	-	200,000
Unsecured bank loans at amortised cost	80,000	-	-	798,939	-	-	-	878,939
Other liabilities	1,607	227,165	14,733	9,759	6,747	-	160,566	420,577
Foreign exchange contracts (gross)	-	568,229	6,281	-	-	-	-	574,510
Total financial liabilities	6,906,821	12,365,440	9,610,139	3,310,898	145,517	-	160,566	32,499,381

Notes to Financial Statements

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

Bank

	2010							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 3 months		Over	Repayable within an indefinite period HK\$'000		
			but not more than 3 months HK\$'000	but not more than 12 months HK\$'000	1 year but not more than 5 years HK\$'000			
Financial assets:								
Cash and short term placements	609,173	5,325,296	-	-	-	-	-	5,934,469
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	527,254	196,461	-	-	-	723,715
Loans and advances and receivables	530,424	1,407,229	415,161	1,447,755	6,617,475	11,989,380	63,576	22,471,000
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	1,720,179	839,863	147,375	2,359	-	-	2,709,776
Other assets	447	143,353	396	428	-	-	33,325	177,949
Foreign exchange contracts (gross)	-	573,001	6,219	-	-	-	-	579,220
Net interest rate swap	-	-	22	-	-	-	-	22
Total financial assets	1,140,044	9,169,058	1,788,915	1,792,019	6,619,834	11,989,380	103,705	32,602,955
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	309,308	571,132	115,000	75,000	-	-	-	1,070,440
Customer deposits at amortised cost	6,758,658	10,611,333	7,371,210	1,895,701	138,770	-	-	26,775,672
Certificates of deposit issued at amortised cost	-	-	200,000	-	-	-	-	200,000
Unsecured bank loans at amortised cost	-	-	-	798,939	-	-	-	798,939
Other liabilities	1,537	152,101	11,109	8,563	6,747	-	116,576	296,633
Foreign exchange contracts (gross)	-	568,229	6,281	-	-	-	-	574,510
Total financial liabilities	7,069,503	11,902,795	7,703,600	2,778,203	145,517	-	116,576	29,716,194

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

Group

	2009							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Financial assets:								
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							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Financial assets:								
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

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, capital, market 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, Assets and Liabilities Management Committee, Operational Risk Management Committee and other designated committees or working groups. Material risks are identified and assessed by designated committees and/or working groups before the launch of new products or business activities, and monitored, documented and controlled against applicable risk limits after the introduction of new products or services or implementation of new business activities. Internal auditors of the Bank 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 Assets and Liabilities Management Committees of the Bank and Public Finance against limits approved by the respective boards of directors.

Interest rate risk exposures in banking book:

The relevant interest rate risk arises 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\$3,384 million (2009: HK\$2,664 million) up to 12 months, profit before tax would increase/decrease by HK\$76 million or 1.55% of equity (2009: HK\$69 million or 1.50% of equity). Profit before tax would increase/decrease by HK\$78 million or 1.61% of equity (2009: HK\$69 million or 1.50% of equity) for the next 12 months after the reporting date.

Based on the positive net interest gap of HK\$5,091 million (2009: HK\$4,694 million) up to five years, economic value would increase positive by HK\$54 million (2009: HK\$61 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 rates on managed-rate assets would decrease by 200 basis points whilst interest rates on other interest-bearing assets and interest-bearing liabilities would be kept unchanged. Based on this scenario, profit before tax would decrease by HK\$269 million or 5.52% of equity (2009: HK\$276 million or 6.01% of equity). Profit before tax would decrease by HK\$237 million or 4.86% of equity (2009: HK\$299 million or 6.51% of equity) for the next 12 months after the reporting date.
- (ii) Interest rates on interest-bearing assets and liabilities, except for interest rates on fixed rate assets and managed-rate assets would increase by 200 basis points. Based on this scenario, profit before tax would decrease by HK\$387 million or 7.95% of equity (2009: HK\$371 million or 8.07% of equity). Profit before tax would decrease by HK\$346 million or 7.12% of equity (2009: HK\$ 439 million or 9.55% of equity) for the next 12 months after the reporting date.

38. Financial Risk Management Objectives and Policies (Continued)

Market risk management (Continued)

(a) Interest rate risk (Continued)

The carrying amounts, or notional amounts if applicable, of financial instruments exposed to interest rate risk based on the earlier of maturity dates and contractual repricing as at 31 December 2010 and 2009 are detailed as follows:

Group

	2010							Total HK\$'000
	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	
Assets:								
Fixed rate financial assets								
Cash and short term placements	5,336,662	-	-	-	-	-	681,947	6,018,609
Placements with banks and financial institutions maturing after one month but not more than twelve months	723,715	-	-	-	-	-	-	723,715
Loans and advances and receivables	2,229,841	1,062,599	561,878	186,038	33,361	455	135,041	4,209,213
Derivative financial instruments	-	-	-	-	-	-	10,167	10,167
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	2,659,962	-	2,359	-	-	-	-	2,662,321
Interest rate swap (notional amount)	200,000	-	-	-	-	-	-	200,000
	11,150,180	1,062,599	564,237	186,038	33,361	455	833,959	13,830,829
Floating rate financial assets								
Loans and advances and receivables	22,517,673	-	-	-	-	-	104,241	22,621,914
Held-to-maturity investments	47,455	-	-	-	-	-	-	47,455
	22,565,128	-	-	-	-	-	104,241	22,669,369
<i>Less:</i>								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	561,132	-	-	-	-	-	119,250	680,382
Customer deposits at amortised cost	22,879,752	136,372	2,204	-	195	-	-	23,018,523
Certificates of deposit issued at amortised cost	200,000	-	-	-	-	-	-	200,000
Derivative financial instruments	-	-	-	-	-	-	5,435	5,435
	23,640,884	136,372	2,204	-	195	-	124,685	23,904,340
Floating rate financial liabilities								
Customer deposits at amortised cost	5,611,651	-	-	-	-	-	1,114,799	6,726,450
Unsecured bank loans at amortised cost	878,939	-	-	-	-	-	-	878,939
Interest rate swap (notional amount)	200,000	-	-	-	-	-	-	200,000
	6,690,590	-	-	-	-	-	1,114,799	7,805,389
Total interest sensitivity gap	3,383,834	926,227	562,033	186,038	33,166	455	(301,284)	4,790,469

Notes to Financial Statements

38. Financial Risk Management Objectives and Policies (Continued)

Market risk management (Continued)

(a) Interest rate risk (Continued)

Bank

	2010							
	Over 1 year but not 1 year or less HK\$'000	Over 2 years but not more than 2 years HK\$'000	Over 3 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	5,325,296	-	-	-	-	-	609,173	5,934,469
Placements with banks and financial institutions maturing after one month but not more than twelve months	723,715	-	-	-	-	-	-	723,715
Loans and advances and receivables	335,042	163,519	86,577	35,791	7,666	455	-	629,050
Derivative financial instruments	-	-	-	-	-	-	10,167	10,167
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	2,659,962	-	2,359	-	-	-	-	2,662,321
Interest rate swap (notional amount)	200,000	-	-	-	-	-	-	200,000
	9,244,015	163,519	88,936	35,791	7,666	455	626,144	10,166,526
Floating rate financial assets								
Loans and advances and receivables	21,737,730	-	-	-	-	-	104,220	21,841,950
Held-to-maturity investments	47,455	-	-	-	-	-	-	47,455
	21,785,185	-	-	-	-	-	104,220	21,889,405
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	841,132	-	-	-	-	-	229,308	1,070,440
Customer deposits at amortised cost	19,767,397	136,372	2,204	-	195	-	-	19,906,168
Certificates of deposit issued at amortised cost	200,000	-	-	-	-	-	-	200,000
Derivative financial instruments	-	-	-	-	-	-	5,435	5,435
	20,808,529	136,372	2,204	-	195	-	234,743	21,182,043
Floating rate financial liabilities								
Customer deposits at amortised cost	5,611,792	-	-	-	-	-	1,257,712	6,869,504
Unsecured bank loans at amortised cost	798,939	-	-	-	-	-	-	798,939
Interest rate swap (notional amount)	200,000	-	-	-	-	-	-	200,000
	6,610,731	-	-	-	-	-	1,257,712	7,868,443
Total interest sensitivity gap	3,609,940	27,147	86,732	35,791	7,471	455	(762,091)	3,005,445

38. Financial Risk Management Objectives and Policies (Continued)

Market risk management (Continued)

(a) Interest rate risk (Continued)

Group	2009							Non-interest-bearing	Total
	1 year or less	Over 1 year but not more than 2 years	Over 2 years but not more than 3 years	Over 3 years but not more than 4 years	Over 4 years but not more than 5 years	Over 5 years	Over 5 years		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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									
Placements with banks and financial institutions maturing after one month but not more than twelve months	19,702,170	-	-	-	-	-	440	19,702,610	
Loans and advances and receivables	122,444	-	-	-	-	-	-	122,444	
	19,824,614	-	-	-	-	-	440	19,825,054	
<i>Less:</i>									
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	
	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								
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
	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)

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

	Group		Bank	
	2010	2009	2010	2009
	Rate (%)	Rate (%)	Rate (%)	Rate (%)
Assets				
Cash and short term placements	0.55	0.21	0.55	0.21
Placements with banks and financial institutions	1.25	0.56	1.25	0.56
Loans and advances and receivables (including trade bills)	5.23	5.59	2.13	2.47
Held-to-maturity investments	1.99	1.94	1.99	1.94
Liabilities				
Deposits and balances of banks and other financial institutions at amortised cost	0.48	1.32	0.36	0.77
Customer deposits at amortised cost	1.01	0.63	0.89	0.57
Certificates of deposit issued at amortised cost	0.73	–	0.73	–
Unsecured bank loans at amortised cost	1.15	–	1.13	–

(b) Currency risk

Currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign exchange positions are managed by the Group's Treasury Department within limits approved by the board of 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 2010 and 2009. Accordingly, no quantitative market risk disclosures for currency risk have been prepared.

(c) Price risk

Price risk is the risk to the Group'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 and 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 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.

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.

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.

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.

The "Neither past due nor impaired loans and receivables" are shown in note 15.

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

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	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Loans and advances and receivables	26,831,127	24,508,584	22,471,000	20,313,622
Credit related contingent liabilities	365,331	359,533	365,331	359,533
Loan commitment and other credit related commitments	4,427,072	3,070,932	4,336,939	3,230,777
Placements with banks and financial institutions	723,715	868,483	723,715	868,483
Short term placements (excluding cash in hand)	5,895,411	5,451,766	5,825,251	5,366,391
Held-to-maturity investments	2,709,776	4,216,634	2,709,776	4,216,634
Derivative financial instruments	10,167	11,657	10,167	11,657
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 15 "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 obligation. 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.

Assets and Liabilities Management Committees of the Bank and Public Finance monitor the liquidity position as part of the ongoing assets and liabilities management, and set up trigger limits to monitor liquidity risk. They also closely monitor the liquidity of the subsidiaries on a periodic basis to ensure that the liquidity structure of the subsidiaries' assets, liabilities and commitments can meet 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, is as follows:

Group

	2010							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Forward assets purchase	-	9,356	-	-	-	-	-	9,356
Foreign currency contracts (gross)	-	568,229	6,281	-	-	-	-	574,510
Credit related contingent liabilities	80,653	35,790	49,201	193,683	6,004	-	-	365,331
Loan commitments and other credit related commitments	2,707,238	1,339,303	114,746	67,281	198,504	-	-	4,427,072
Customer deposits at amortised cost	6,553,492	11,296,724	9,308,584	2,450,310	146,789	-	-	29,755,899
Deposits and balances of banks and other financial institutions at amortised cost	199,252	291,397	115,212	75,115	-	-	-	680,976
Certificates of deposit issued at amortised cost	-	-	201,600	-	-	-	-	201,600
Unsecured bank loans at amortised cost	80,020	-	-	806,379	-	-	-	886,399
Other liabilities	-	213,851	-	-	-	-	160,566	374,417
	9,620,655	13,754,650	9,795,624	3,592,768	351,297	-	160,566	37,275,560

Group

	2009							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Forward assets purchase	-	21,570	-	-	-	-	-	21,570
Foreign currency contracts (gross)	-	946,802	585,510	-	-	-	-	1,532,312
Credit related contingent liabilities	89,474	4,426	38,834	220,595	6,204	-	-	359,533
Loan commitments and other credit related commitment	2,513,980	291,260	53,110	152,282	60,300	-	-	3,070,932
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
	10,210,192	13,024,200	9,152,466	3,683,486	80,135	-	105,907	36,256,386

38. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk management (Continued)

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

Bank

	2010							
	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	-	9,356	-	-	-	-	-	9,356
Foreign currency contracts (gross)	-	568,229	6,281	-	-	-	-	574,510
Credit related contingent liabilities	80,653	35,790	49,201	193,683	6,004	-	-	365,331
Loan commitments and other credit related commitments	2,617,105	1,339,303	114,746	67,281	198,504	-	-	4,336,939
Customer deposits at amortised cost	6,713,250	10,626,066	7,396,072	1,913,869	146,789	-	-	26,796,046
Deposits and balances of banks and other financial institutions at amortised cost	199,252	291,397	115,212	75,115	-	-	-	680,976
Certificates of deposit issued at amortised cost	-	-	201,600	-	-	-	-	201,600
Unsecured bank loans at amortised cost	-	-	-	806,379	-	-	-	806,379
Other liabilities	-	141,481	-	-	-	-	116,576	258,057
	9,610,260	13,011,622	7,883,112	3,056,327	351,297	-	116,576	34,029,194

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
Credit related contingent liabilities	89,474	4,426	38,834	220,595	6,204	-	-	359,533
Loan commitment and other credit related commitments	2,673,825	291,260	53,110	152,282	60,300	-	-	3,230,777
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
	10,601,463	12,914,743	7,320,145	2,668,459	80,135	-	204,710	33,789,655

Following the adoption of HK-Int 5, some liabilities such as unsecured bank loans, are included in the bucket of "Repayable on demand", resulting in a larger amount in this time bucket. This arises when the lender has the right to demand repayment of a term loan at any time, and the management does not expect the lender to exercise its rights to demand repayment.

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 Group 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 their 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. 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	
	2010	2009	2010	2009
Capital adequacy ratio	18.8%	19.1%	15.2%	15.4%
Core capital ratio	17.7%	18.0%	15.2%	15.4%

38. Financial Risk Management Objectives and Policies (Continued)

Capital disclosures

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

2010

	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	1,305,186	1,463,969
Income statement	318,139	164,318
Deduct:		
Goodwill	(242,342)	–
Deferred tax assets	(1,226)	(986)
Core capital before deductions	4,233,802	4,481,346
Less: Deductions from shareholdings in subsidiaries	(33,054)	(1,516,600)
Other deductions	(5,152)	(5,152)
Total core capital after deductions	4,195,596	2,959,594
Supplementary capital:		
Regulatory reserve	263,831	224,549
Collective impairment allowances	32,876	20,000
Supplementary capital before deductions	296,707	244,549
Less: Deductions from shareholdings in subsidiaries	(33,054)	(239,397)
Other deductions	(5,152)	(5,152)
Total supplementary capital after deductions	258,501	–
Capital base	4,454,097	2,959,594

The subsidiaries not included in the computation of the capital adequacy ratio 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)

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

Capital adequacy ratio at 31 December 2010 and 2009 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 subsidiary consolidated into capital base and risk weighted exposures is Public Finance.

38. Financial Risk Management Objectives and Policies (Continued)

Capital disclosures (Continued)

Group

Class of exposures	2010					
	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	1,290,889	-	1,290,889	-	-	-
Public sector entity	-	275,409	275,409	-	55,082	55,082
Bank	7,604,580	476,229	8,080,809	1,703,279	134,223	1,837,502
Securities firm	-	154,423	154,423	-	77,212	77,212
Corporate	500,079	5,827,187	6,327,266	500,079	5,827,187	6,327,266
Cash items	-	736,862	736,862	-	79,367	79,367
Regulatory retail	-	8,422,116	8,422,116	-	6,316,587	6,316,587
Residential mortgage	-	9,802,049	9,802,049	-	4,585,036	4,585,036
Past due exposures	-	154,412	154,412	-	226,730	226,730
Collective investment scheme exposures	-	-	-	-	-	-
Other non-past due exposures	-	1,290,472	1,290,472	-	1,290,472	1,290,472
Off-balance sheet:						
OTC derivative transactions						
- foreign exchange contracts	-	480,047	480,047	-	47	47
- others	-	-	-	-	-	-
Other off-balance sheet items	-	5,001,759	5,001,759	-	180,861	180,861
	9,395,548	32,620,965	42,016,513	2,203,358	18,772,804	20,976,162

Notes to Financial Statements

38. Financial Risk Management Objectives and Policies (Continued)

Capital disclosures (Continued)

Bank

Class of exposures	2010					
	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	1,290,889	-	1,290,889	-	-	-
Public sector entity	-	275,409	275,409	-	55,082	55,082
Bank	7,540,587	476,229	8,016,816	1,690,480	134,223	1,824,703
Securities firm	-	154,423	154,423	-	77,212	77,212
Corporate	500,079	5,824,372	6,324,451	500,079	5,824,372	6,324,451
Cash items	-	722,463	722,463	-	79,367	79,367
Regulatory retail	-	4,550,835	4,550,835	-	3,413,126	3,413,126
Residential mortgage	-	9,451,505	9,451,505	-	4,462,346	4,462,346
Past due exposures	-	110,126	110,126	-	160,302	160,302
Collective investment scheme exposures	-	-	-	-	-	-
Other non-past due exposures	-	1,216,563	1,216,563	-	1,216,563	1,216,563
Off-balance sheet:						
OTC derivative transactions						
- foreign exchange contracts	-	480,047	480,047	-	47	47
- others	-	-	-	-	-	-
Other off-balance sheet items	-	4,911,627	4,911,627	-	180,861	180,861
	9,331,555	28,173,599	37,505,154	2,190,559	15,603,501	17,794,060

38. Financial Risk Management Objectives and Policies (Continued)

Capital disclosures (Continued)

Group	2009					
	Class of exposures	Exposures*		Total HK\$'000	Risk-weighted amounts	
		Rated# HK\$'000	Unrated HK\$'000		Rated HK\$'000	Unrated 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 [#]	Unrated	Total	Rated	Unrated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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

The Group did not enter into OTC derivative transactions other than foreign exchange contracts and interest rate swaps and futures with counterparties during the years ended 31 December 2010 and 2009. The credit exposures attributed to such transactions are considered insignificant.

* 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.

38. Financial Risk Management Objectives and Policies (Continued)

Capital disclosures (Continued)

2010

	Group		Bank	
	Risk-weighted exposures HK\$'000	Capital requirements/ charge HK\$'000	Risk-weighted exposures HK\$'000	Capital requirements/ charge HK\$'000
Credit risk	20,976,162	1,678,093	17,794,060	1,423,525
Market risk – foreign exchange exposures	587,600	47,008	587,600	47,008
Operational risk	2,172,800	173,824	1,182,263	94,581
Deductions	(58,493)	–	(22,272)	–
	23,678,069	1,898,925	19,541,651	1,565,114

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

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 operational risk-weighted exposures for the years ended 31 December 2010 and 2009.

39. Comparative Amounts

As explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment, and a third consolidated statement of financial position as at 1 January 2009 has been presented.

40. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 14 January 2011.

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 2010								
	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	206,444	161	1,270	1,368	3,398	154,224	74.7	1,270	1,270
Building and construction, property development and investment									
Property development	455,361	359	-	-	-	27,112	6.0	-	-
Property investment	6,647,512	5,231	-	-	-	5,533,717	83.2	-	-
Civil engineering works	105,189	82	-	-	-	22,380	21.3	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	2,795	2	-	-	-	2,795	100.0	-	-
Information technology	50,391	40	-	-	-	1,469	2.9	-	-
Wholesale and retail trade	85,070	56	435	21	-	70,236	82.6	1,656	29
Transport and transport equipment	4,448,236	3,168	3,289	680	432	4,384,582	98.6	3,306	3,165
Hotels, boarding houses and catering	358,539	282	-	-	-	17,259	4.8	-	-
Financial concerns	251,789	198	-	-	-	219,689	87.3	-	-
Stockbrokers									
Margin lending	119,725	94	-	-	-	119,725	100.0	-	-
Others	20,972	17	-	-	-	972	4.6	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	41,276	33	-	-	-	8,366	20.3	-	-
Others	95,197	75	-	5,222	5,222	95,197	100.0	-	-
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	174,410	137	-	-	-	174,410	100.0	248	-
Loans for the purchase of other residential properties	7,231,425	5,459	-	-	153	7,174,568	99.2	-	-
Loans for credit card advances	15,713	12	15	606	637	-	-	15	4
Loans for other business purposes	351	-	-	-	-	351	100.0	-	-
Loans for other private purposes	3,796,356	13,057	91,347	451,253	404,968	187,791	4.9	135,625	94,412
Trade finance	403,383	318	14,374	8,645	223	283,571	70.3	32,286	32,286
Other loans and advances	101,688	80	-	8,963	43,166	93,927	92.4	-	-
Sub-total	24,611,822	28,861	110,730	476,758	458,199	18,572,341	75.5	174,406	131,166
Loans and advances for use outside Hong Kong	2,102,538	3,806	56,760	20,592	20,495	790,138	37.6	140,901	140,901
Total loans and advances (excluding trade bills)	26,714,360	32,667	167,490	497,350	478,694	19,362,479	72.5	315,307	272,067

Advances to Customers by Industry Sectors (Continued)

Bank

	31 December 2010								
	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	194,155	153	1,270	1,368	3,398	151,934	78.3	1,270	1,270
Building and construction, property development and investment									
Property development	455,331	359	-	-	-	27,112	6.0	-	-
Property investment	6,642,693	5,231	-	-	-	5,528,898	83.2	-	-
Civil engineering works	104,645	82	-	-	-	21,836	20.9	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	2,795	2	-	-	-	2,795	100.0	-	-
Information technology	50,391	40	-	-	-	1,469	2.9	-	-
Wholesale and retail trade	69,092	54	414	-	-	65,379	94.6	1,627	-
Transport and transport equipment	4,022,567	3,168	3,289	680	432	3,958,967	98.4	3,306	3,165
Hotels, boarding houses and catering	358,539	282	-	-	-	17,259	4.8	-	-
Financial concerns	251,789	198	-	-	-	219,689	87.3	-	-
Stockbrokers									
Margin lending	119,725	94	-	-	-	119,725	100.0	-	-
Others	20,972	17	-	-	-	972	4.6	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	41,276	33	-	-	-	8,366	20.3	-	-
Others	95,197	75	-	5,222	5,222	95,197	100.0	-	-
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	174,410	137	-	-	-	174,410	100.0	248	-
Loans for the purchase of other residential properties	6,932,081	5,459	-	-	153	6,875,224	99.2	-	-
Loans for credit card advances	15,713	12	15	606	637	-	-	15	4
Loans for other business purposes	351	-	-	-	-	351	100.0	-	-
Loans for other private purposes	243,092	191	590	1,017	885	145,877	60.0	590	99
Trade finance	403,383	318	14,374	8,645	223	283,571	70.3	32,286	32,286
Other loans and advances	101,688	80	-	8,963	43,166	93,927	92.4	-	-
Sub-total	20,299,885	15,985	19,952	26,501	54,116	17,792,958	87.7	39,342	36,824
Loans and advances for use outside Hong Kong	2,102,538	3,806	56,760	20,592	20,495	790,138	37.6	140,901	140,901
Total loans and advances (excluding trade bills)	22,402,423	19,791	76,712	47,093	74,611	18,583,096	83.0	180,243	177,725

Supplementary Information (Unaudited)

Advances to Customers by Industry Sectors (Continued)

Group

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

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 China Exposures

The following table illustrates the disclosure required to be made in respect of the Group and the Bank's Mainland China 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 2010				
Mainland China entities	1,153	34	1,187	55
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	665	175	840	2
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland China exposures	–	–	–	–
	1,818	209	2,027	57

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 China 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 China exposures	741	–	741	38
	963	142	1,105	38

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.

As at 31 December 2010

	Banks and other financial institutions HK\$'million	Public sector entities HK\$'million	Others HK\$'million	Total HK\$'million
Group				
1. Asia Pacific excluding Hong Kong of which:	3,605	53	397	4,055
China	940	53	83	1,076
Japan	793	–	26	819
2. Western Europe of which:	3,591	–	89	3,680
France	1,210	–	–	1,210
Bank				
1. Asia Pacific excluding Hong Kong of which:	3,594	53	397	4,044
China	940	53	83	1,076
Japan	793	–	26	819
2. Western Europe of which:	3,591	–	89	3,680
France	1,210	–	–	1,210

As at 31 December 2009

	Banks and other financial institutions HK\$'million	Public sector entities HK\$'million	Others HK\$'million	Total HK\$'million
Group and Bank				
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

Supplementary Information (Unaudited)

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 HK\$'million	Spot liabilities HK\$'million	Forward purchases HK\$'million	Forward sales HK\$'million	Net long/ (short) position HK\$'million	Structural assets HK\$'million
As at 31 December 2010						
US Dollars	2,913	3,033	250	119	11	–
Renminbi	222	225	–	–	(3)	590
Others	2,067	2,106	290	257	(6)	–
	5,202	5,364	540	376	2	590

Group and Bank

	Spot assets HK\$'million	Spot liabilities HK\$'million	Forward purchases HK\$'million	Forward sales HK\$'million	Net Long/ (short) position HK\$'million	Structural assets HK\$'million
As at 31 December 2009						
US Dollars	4,105	3,579	511	1,028	9	–
Renminbi	143	133	–	–	10	227
Others	3,257	3,141	154	275	(5)	–
	7,505	6,853	665	1,303	14	227

Liquidity Ratios

	2010	2009
Average liquidity ratios for the year:		
Group	47.5%	52.6%
Bank	43.5%	48.0%

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.

Liquidity ratio computation on consolidated basis is also required by the HKMA. 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

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

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 the 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

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. Audit Committee comprises non-executive directors appointed by the directors, and a majority of them are independent non-executive directors.

4. Credit Committee

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, Heads of Business Units and Head of Credit.

5. Assets and Liabilities Management Committee

Assets and Liabilities Management Committee reviews and assesses the risk profile and consolidated statement of financial position structure of the Bank, sets out the objectives for the assets and liabilities 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 Board Executive Committee or board of directors. Assets and Liabilities Management Committee comprises the Chairman, Chief Executive, Alternate Chief Executives, non-executive directors, Head of Treasury, Financial Controller and Risk Manager.

6. Credit Risk Management Committee

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 the Chief Executive, Alternate Chief Executive, Financial Controller and Risk Manager.

7. Operational Risk Management Committee

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 the Chief Executive, Alternate Chief Executive, Head of Information Technology, Head of Operations, Financial Controller and Risk Manager.

Supplementary Information (Unaudited)

8. IT Steering Committee

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

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. 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

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. Human Resources Committee comprises the Chief Executive, Alternate Chief Executives, Senior Deputy General Manager and Head of Human Resources.

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

AML and CTF Committee is responsible for overseeing whether the Bank is 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 the Chief Executive, Alternate Chief Executives, Senior Deputy General Manager, Financial Controller, Head of Compliance, Head of Internal Audit and Heads of Business Units and Departments.