



PUBLIC BANK (HONG KONG) LIMITED

Annual Report 2011



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

2/F, Public Bank Centre

120 Des Voeux Road Central

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

Bangkok Bank Public Company Limited

Bank of East Asia, Limited

CIMB Bank Berhad

Oversea-Chinese Banking Corporation Limited

Public Bank Berhad

Public Bank (L) Ltd

Standard Bank of South Africa Limited

Standard Chartered Bank (Hong Kong) Limited

Tai Yau Bank Limited

The Hongkong and Shanghai Banking Corporation
Limited



Public Bank (Hong Kong) Limited

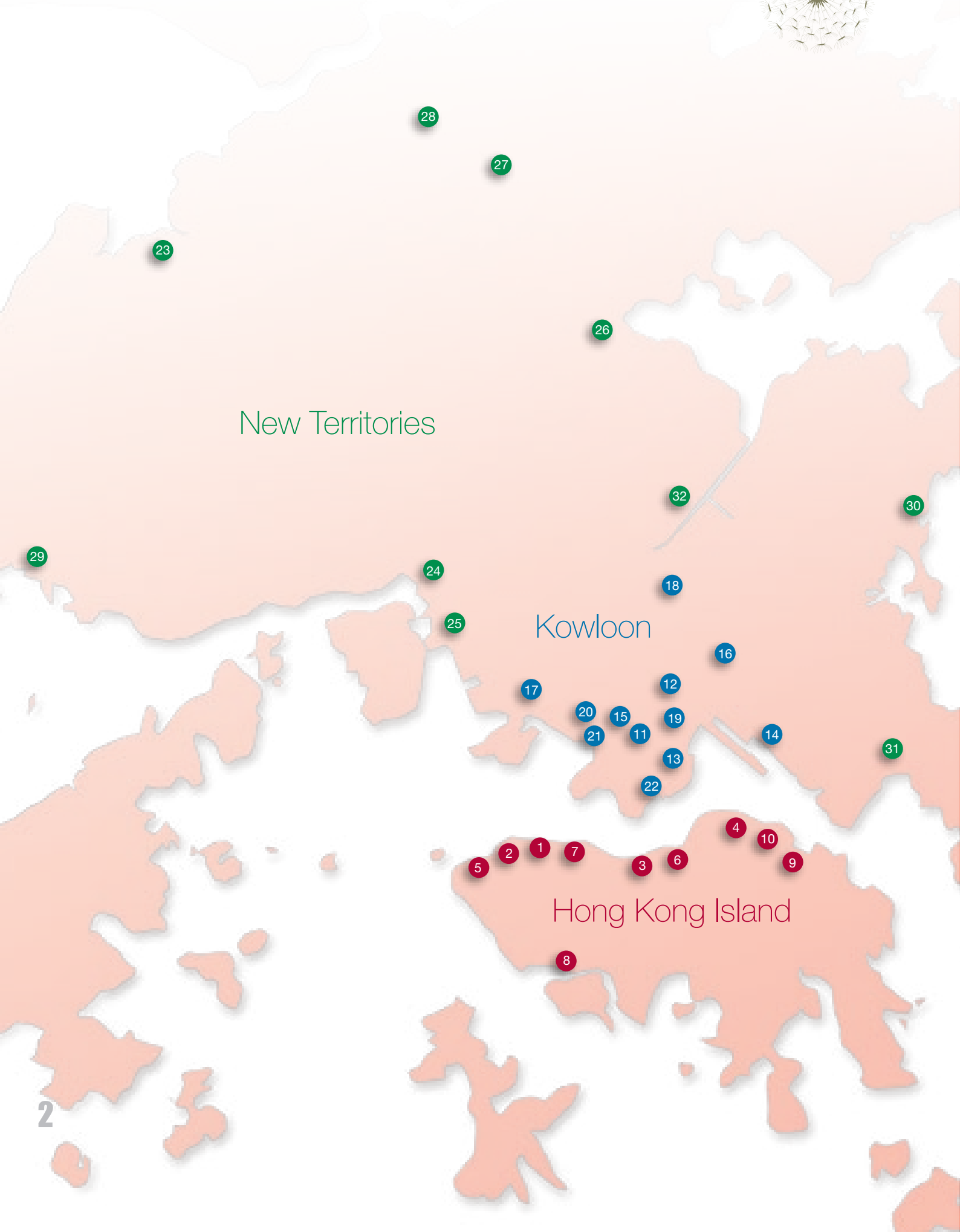
Annual Report 2011

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Branch Network





Head Office and Branches

Head Office
2/F, Public Bank Centre, 120 Des Voeux Road Central, Central, Hong Kong
Tel : 2541 9222 Telex : 73085 CBHK HKHH
P.O. Box : G.P.O. Box 824 Fax : 2541 0009
Website : www.publicbank.com.hk

Hong Kong Island

- 1 Main Branch**
G/F, Public Bank Centre
120 Des Voeux Road Central, Central
Tel: 2541 9222 Fax: 2545 2866
Manager: So Wai Ming, Aubrey
- 2 Western Branch**
Shop 2-3, G/F, Kam Kwan Building
163-173 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
139 Hennessy Road, Wanchai
Tel: 2891 4171 Fax: 2834 1012
Manager: Lee Yuk Tong, Tony
- 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, Helen
- 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, Central
Tel: 2147 2140 Fax: 2147 2244
Manager: Wong Kwok Fai, Tony
- 8 Aberdeen Branch**
Shop C, G/F, Kong Kai Building
184 Aberdeen Main Road, Aberdeen
Tel: 2871 0928 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
Manager: Ngan Pui Shan, Sandy
- 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: 2331 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: Yan Yi Kam, Patrick
- 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 Fax: 2389 9969
- 15 Mongkok Branch**
G/F, JCG Building, 16 Mongkok Road
Tel: 2391 8393 Fax: 2391 6909
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 9858 Fax: 2786 9506
Manager: Lai Siu Yee, Flora
- 18 Wong Tai Sin Branch**
Shop 641-642, 6/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
To Kwa Wan
Tel: 2362 0238 Fax: 2362 9999
Manager: Choi Kam Yee, Catalina
- 20 Prince Edward Branch**
G/F, 751 Nathan Road
Tel: 2397 3930 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: Fong Fung Mei, Marisa
- 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: Lau Yiu Fai, Lawrence
- 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: 2639 0307 Fax: 3124 0091
Manager: Chong Mei Kuen, Joe
- 29 Tuen Mun Branch**
Shop E, G/F, Kam Lai Building
Nos. 1-7 Kai Man Path, Tuen Mun
Tel: 2440 1298 Fax: 2440 1388
Manager: Lam Wong Kan, Kent
- 30 Sai Kung Branch**
G/F, 16 Yi Chun Street, Sai Kung
Tel: 2792 8588 Fax: 2791 0077
- 31 Tseung Kwan O Branch**
G105-106, G/F, Metro City Plaza I, Tseung Kwan O
Tel: 2701 7688 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
Manager: Wong Sze Mui, Rhoda

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 2026
Fax : (86-755) 8280 0016
Manager : Ye Jun Liang, Leo
- 35 Shekou Sub-branch**
Shop No.155-156, Coastal Building (East Block)
Hai De San Dao, Nanshan District, Shenzhen
People's Republic of China
Tel : (86-755) 8627 1388
Fax : (86-755) 8627 0699
Manager : Ying Wei Jun, Yoyo
- Shenyang Representative Office**
Unit A, 18/F, Sunwah Hi-tech Building
No. 262 Shifu Road, Shenthe 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 8951
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



Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman

I am pleased to present a review of the performance of Public Bank (Hong Kong) Limited (the “Bank”) and its subsidiaries (the “Group”) for the financial year ended 31 December 2011.

GROUP FINANCIAL PERFORMANCE

The Group recorded a profit after tax of HK\$370.6 million for the financial year ended 31 December 2011, representing a decrease of HK\$83.2 million or 18.3% when compared to the previous year. Total loans and advances (including trade bills) of the Group grew by HK\$727.7 million or 2.7% to HK\$27.47 billion as at 31 December 2011 from HK\$26.75 billion as at 31 December 2010. Customer deposits of the Group decreased by HK\$1.34 billion or 4.5% to HK\$28.40 billion as at 31 December 2011 from HK\$29.74 billion as at 31 December 2010.

The earnings of the Group for the year under review was affected by the narrowing net interest margins of the banking operations of the Group due to higher cost of customer deposits, and an increase in impairment allowances for the personal loans of the finance operations of the Group. The Group's impaired loans to total loans improved to 1.0% as at 31 December 2011 from 1.2% as at 31 December 2010.

The Board of Directors had declared an interim dividend of HK\$6.410 per share in June 2011. The Board of Directors recommends the payment of a final dividend of HK\$5.295 (2010: HK\$7.162) per share, making a total dividend of HK\$11.705 per share for 2011. The total dividend declared and recommended for the year amounted to HK\$173.4 million.



BUSINESS DEVELOPMENT OF THE GROUP

In 2011, the Bank, which has a branch network of 32 branches in Hong Kong and 3 branches in Shenzhen in the People's Republic of China ("PRC"), continued to focus on its market segments and provide a broad range of commercial and retail banking services. Public Finance Limited ("Public Finance"), a subsidiary of the Bank, which has a branch network of 42 branches in Hong Kong, continued to focus on its core business in personal lending. The Group has a combined network of 77 branches as at end of 2011. The Group also undertakes securities trading business through two stock broking subsidiaries.

The Group will continue to adopt prudent and flexible business strategies and adjust to market changes accordingly in the expansion of its customer base and business.

FINANCIAL REVIEW

For the year under review, the Group's net interest income decreased by HK\$51.4 million or 4.1% to HK\$1,205.5 million from HK\$1,256.9 million in the previous year, due to narrowing net interest margins caused by higher cost of customer deposits without a corresponding increase in the yields of the Group's loan portfolio. Total operating income of the Group decreased by HK\$56.2 million or 3.7% to HK\$1.47 billion for the year 2011, whilst total operating expenses (before change in fair value of investment properties) increased by HK\$26.9 million or 3.8%. The increase in operating expenses was mainly due to increase in staff costs and branch premises related costs.

LOANS AND DEPOSITS

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

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 the Group's products and services, and streamline the support services of the combined branch networks 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. I would also like to express our appreciation and gratitude 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

Our Corporate Family



Corporate Events & Recreational Activities



A group photo for the album of the participants of the Sales Leadership & Motivation Programme 2011 of Public Bank (Hong Kong).



Opening of a new branch of Public Bank (Hong Kong) in Tsim Sha Tsui in March 2011.



Opening of a new branch of Public Bank (Hong Kong) in Tai Kok Tsui in January 2011.



Branch Managers and Head of Business Units participated at the business dialogue with members of the senior management of Public Bank, Malaysia during their visit to Hong Kong in October 2011.



An outing to the Giant Buddha in Lantau Island organised by the Group's Sports Club in July 2011.



Staff performing "Beating the drums in unison" at the Group's Annual Dinner 2011.



Chief Executive Mr. Tan took a photo for the album with the staff performers at the Group's Annual Dinner 2011.



Participants took part in "Ready to Stand Up as One" exercise at the Sales Leadership & Motivation Programme 2011 of Public Bank (Hong Kong).



Representatives of Public Bank (Hong Kong) at the National Sales Convention 2011 of the Public Bank Group held in Kuala Lumpur, Malaysia.



Participants taking part in the team building activity on "Fire Fighting" in the Sales Leadership & Motivation Programme 2011 of Public Bank (Hong Kong).

Our Corporate Family

Marketing & Promotions



大眾銀行(香港)
「高息」儲蓄戶口
 利率更高 更穩 更靈活

儲蓄存款利率

存款種類	利率
「高息」活期儲蓄存款	3.00%
「高息」定期儲蓄存款	3.50%

大眾銀行(香港)
 PUBLIC BANK (HONG KONG)
 8107 0818

大眾銀行(香港)
 PUBLIC BANK (HONG KONG)
 經大眾銀行(香港)領取政府HK\$6,000
 傳遞愛心 兼享高息

2.68%

「傳遞愛心 兼享高息」儲蓄戶口 - 詳情如下：
 - 活期存款利率為2.68% - 定期存款利率為3.25%
 - 每月存款最高限額為5,000元，永久利率優惠

大眾銀行(香港) 2853 4322

大眾銀行(香港)
 PUBLIC BANK (HONG KONG)
 2480 8888

大眾銀行(香港)
 另為業主、受薪專業人士及公務員
 特設私人貸款計劃

- 毋須任何抵押
- 24小時內即時撥款及還款
- 還款期長達60個月

大眾銀行(香港)
 PUBLIC BANK (HONG KONG)
 2480 8888

大華銀行(香港)

新開證券戶口/ 網上證券交易服務

首月\$0佣金優惠

(個人戶口)



0.1%/0.15%

個人戶口
網上證券交易服務

350 點數

積分禮券

最高可享\$1,000

大華銀行(香港)
PUBLIC BANK (HONG KONG) LIMITED
www.publicbank.com.hk 8107 0818

高息外幣投資存款

高息外幣
投資存款的優點：

- 利率高
- 匯率波動
- 投資回報
- 靈活存取
- 風險分散



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PUBLIC BANK (HONG KONG) LIMITED
www.publicbank.com.hk 8107 0818

大華財務

My Cash 循環貸款

長時用錢
一切由我作主



- 利率特低
- 自動每月還款
- 專為個人用途或短期投資而設

大華財務
2848 1888

大華銀行(香港)
PUBLIC BANK (HONG KONG) LIMITED
www.publicbank.com.hk 8107 0818

大華財務

公務員低息私人貸款



3

最低利率
0.18%

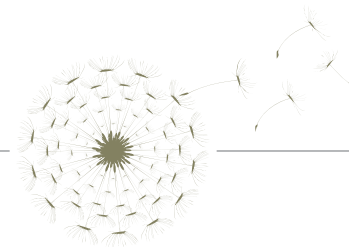
最高貸款額
最高\$50,000

最高貸款額
最高\$2,000

大華財務
2848 1888

大華銀行(香港)
PUBLIC BANK (HONG KONG) LIMITED
www.publicbank.com.hk 8107 0818

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 2011.

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 2011 and the state of affairs of the Bank and of the Group at that date are set out in the financial statements on pages 14 to 111.

The directors recommend the payment of a final dividend of HK\$5.295 (2010: HK\$7.162) per ordinary share. Interim dividend of HK\$6.410 (2010: HK\$7.187) 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 the 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 24, 25 and 26 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 33 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 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

In accordance with Articles 105 and 106 of the New Articles of Association of the Bank, Tan Sri Dato’ Sri Dr. Teh Hong Piow, Tan Sri Datuk Seri Utama Thong Yaw Hong and Mr. Tan Yoke Kong 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			At the end of the year	Exercise price HK\$	Exercise period
	At the beginning of the year	Granted during the year	Exercised during the year			
Tan Yoke Kong	1,318,000	–	–	1,318,000	6.35	10.6.2005 to 9.6.2015
Tan Sri Dato' Sri Tay Ah Lek	1,230,000	–	–	1,230,000	6.35	10.6.2005 to 9.6.2015
Dato' Chang Kat Kiam	1,380,000	–	–	1,380,000	6.35	10.6.2005 to 9.6.2015
Lee Chin Guan	350,000	–	–	350,000	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 the Board or the 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 or any of its holding companies, subsidiaries or 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' INTEREST IN CONTRACTS

Save as disclosed in note 37 to the financial statements, no director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Bank to which the Bank or any of its holding companies, subsidiaries or fellow subsidiaries was a party at the end of the year or at any time during the year.

Report of the Directors



COMPLIANCE WITH SUPERVISORY POLICY MANUAL

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 Manual issued by the Hong Kong Monetary Authority (the “HKMA”). The Bank has complied with the capital requirements related to capital base and capital adequacy ratio stipulated by the HKMA.

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 Datuk Seri Utama Thong Yaw Hong

Director

Tan Yoke Kong

Director

Hong Kong

17 January 2012

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 14 to 111, which comprise the consolidated and the Bank's statement of financial position as at 31 December 2011, 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.

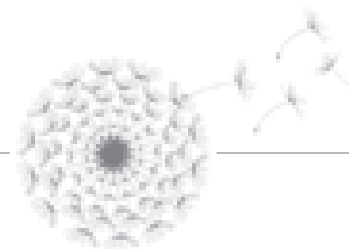
OPINION

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 2011, 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
22/F CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
17 January 2012

Consolidated Income Statement

For the year ended 31 December 2011



	Notes	2011 HK\$'000	2010 HK\$'000
Interest income	7	1,551,830	1,489,110
Interest expense	7	(346,327)	(232,234)
NET INTEREST INCOME		1,205,503	1,256,876
Other operating income	8	261,706	266,528
OPERATING INCOME		1,467,209	1,523,404
Operating expenses	9	(727,852)	(700,961)
Changes in fair value of investment properties		971	2,478
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		740,328	824,921
Impairment allowance written back in relation to the Lehman Brothers Minibonds repurchased		34,157	–
		774,485	824,921
Impairment allowances for loans and advances and receivables	10	(324,014)	(281,045)
PROFIT BEFORE TAX		450,471	543,876
Tax	12	(79,872)	(90,125)
PROFIT FOR THE YEAR		370,599	453,751
ATTRIBUTABLE TO:			
Owners of the Bank	13	370,599	453,751

Details of dividends paid/payable are disclosed in note 14 to the financial statements.

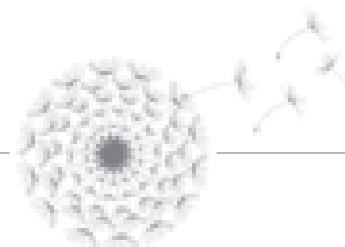
Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 HK\$'000	2010 HK\$'000
PROFIT FOR THE YEAR	370,599	453,751
OTHER COMPREHENSIVE INCOME FOR THE YEAR		
Exchange gain on translating foreign operations, net of tax	<u>17,240</u>	13,205
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>387,839</u>	466,956
ATTRIBUTABLE TO:		
Owners of the Bank	<u>387,839</u>	466,956

Consolidated Statement of Financial Position

31 December 2011



	Notes	Group		Bank	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
ASSETS					
Cash and short term placements	15	4,574,112	6,018,609	4,503,594	5,934,469
Placements with banks and financial institutions maturing after one month but not more than twelve months	16	513,527	723,715	513,527	723,715
Derivative financial instruments		3,220	10,167	3,220	10,167
Loans and advances and receivables	17	27,370,056	26,626,606	22,835,743	22,370,133
Available-for-sale financial assets	18	6,804	6,804	6,804	6,804
Held-to-maturity investments	19	3,421,503	2,709,776	3,411,512	2,709,776
Investment in subsidiaries	20	–	–	1,755,997	1,755,997
Interest in a jointly-controlled entity	21	1,513	1,513	1,500	1,500
Deferred tax assets	31	21,253	9,633	19,307	7,508
Tax recoverable		15,723	901	14,848	585
Intangible assets	23	718	718	–	–
Property and equipment	24	62,864	68,609	51,025	55,488
Land held under finance leases	25	107,995	111,256	105,633	108,356
Investment properties	26	48,309	47,338	22,801	22,049
Goodwill	27	242,342	242,342	–	–
Other assets	22	98,054	269,987	67,960	177,949
TOTAL ASSETS		36,487,993	36,847,974	33,313,471	33,884,496
EQUITY AND LIABILITIES					
LIABILITIES					
Deposits and balances of banks and other financial institutions at amortised cost		1,246,092	680,382	1,571,254	1,070,440
Derivative financial instruments		2,051	5,435	2,051	5,435
Customer deposits at amortised cost	28	28,400,331	29,744,973	25,131,792	26,775,672
Certificates of deposit issued at amortised cost		513,315	200,000	513,315	200,000
Unsecured bank loans at amortised cost	29	798,075	878,939	798,075	798,939
Current tax payable		27,936	40,909	20,555	1,702
Deferred tax liabilities	31	9,061	7,256	6,532	6,522
Other liabilities	30	434,873	420,577	352,875	296,633
TOTAL LIABILITIES		31,431,734	31,978,471	28,396,449	29,155,343
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK					
Issued capital	32	1,481,600	1,481,600	1,481,600	1,481,600
Reserves	33	3,574,659	3,387,903	3,435,422	3,247,553
TOTAL EQUITY		5,056,259	4,869,503	4,917,022	4,729,153
TOTAL EQUITY AND LIABILITIES		36,487,993	36,847,974	33,313,471	33,884,496

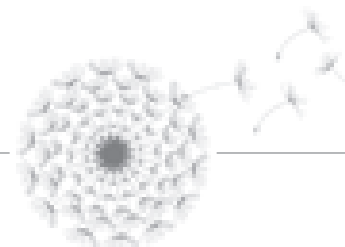
Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Note	2011 HK\$'000	2010 HK\$'000
TOTAL EQUITY			
Balance at the beginning of the year		4,869,503	4,596,370
Profit for the year		370,599	453,751
Other comprehensive income		17,240	13,205
Total comprehensive income for the year		387,839	466,956
Dividends paid in respect of previous year	14(a)	(106,112)	(87,340)
Dividends paid in respect of current year	14(a)	(94,971)	(106,483)
Balance at the end of the year		5,056,259	4,869,503

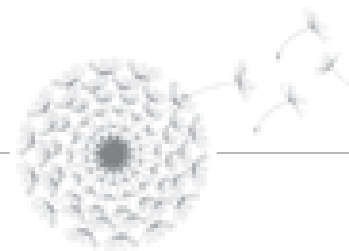
Consolidated Statement of Cash Flows

For the year ended 31 December 2011



	Notes	2011 HK\$'000	2010 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		450,471	543,876
Adjustments for:			
Dividends received from listed investments	8	(13)	(13)
Dividends received from unlisted investments	8	(500)	(980)
Depreciation of property and equipment and land held under finance leases	9	24,864	24,594
Increase in fair value of investment properties	26	(971)	(2,478)
Decrease in impairment allowances for loans and advances and receivables		(11,871)	(66,468)
Net losses on disposal of property and equipment		199	108
Exchange differences		30,209	14,175
Profits tax paid		(127,492)	(46,421)
		<hr/>	<hr/>
Operating profit before changes in operating assets and liabilities		364,896	466,393
		<hr/>	<hr/>
Increase in operating assets:			
Decrease in cash and short term placements		-	411,633
Decrease in placements with banks and financial institutions		297,825	120,535
Decrease in derivative financial instruments		6,947	1,490
Increase in loans and advances and receivables		(734,538)	(2,322,543)
(Increase)/decrease in held-to-maturity investments		(203,755)	275,524
Decrease in other assets		171,933	171,442
		<hr/>	<hr/>
		(461,588)	(1,341,919)
		<hr/>	<hr/>
Decrease in operating liabilities:			
Increase/(decrease) in deposits and balances of banks and other financial institutions at amortised cost		565,710	(344,246)
(Decrease)/increase in customer deposits at amortised cost		(1,344,642)	318,046
Increase in certificates of deposit issued at amortised cost		313,315	200,000
(Decrease)/increase in derivative financial instruments		(3,384)	3,767
Increase/(decrease) in other liabilities		14,296	(370,526)
		<hr/>	<hr/>
		(454,705)	(192,959)
		<hr/>	<hr/>
Net cash outflow from operating activities		(551,397)	(1,068,485)

	Notes	2011 HK\$'000	2010 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(551,397)	(1,068,485)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	24	(16,110)	(16,933)
Exchange differences		53	41
Dividends received from listed investments		13	13
Dividends received from unlisted investments		500	980
Net cash outflow from investing activities		(15,544)	(15,899)
CASH FLOWS FROM FINANCING ACTIVITIES			
New unsecured bank loan		–	878,939
Dividends paid on shares		(201,083)	(193,823)
Repayment of unsecured bank loans		(80,864)	–
Net cash (outflow)/inflow from financing activities		(281,947)	685,116
NET DECREASE IN CASH AND CASH EQUIVALENTS		(848,888)	(399,268)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		8,540,588	8,939,856
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		7,691,700	8,540,588
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand		1,029,085	681,947
Money at call and short notice with original maturity within three months		3,545,027	5,336,662
Placements with banks and financial institutions with original maturity within three months		246,506	158,869
Held-to-maturity investments with original maturity within three months		2,871,082	2,363,110
		7,691,700	8,540,588



1. CORPORATE INFORMATION

The Bank is a limited liability company and its registered office is located at 2/F, Public Bank Centre, 120 Des Voeux Road Central, Central, Hong Kong. During the 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 20 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 is incorporated in Malaysia.

2. ACCOUNTING POLICIES

The 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 "Guideline on the Application of the Banking (Disclosure) Rules" and "Corporate Governance of Locally Incorporated Authorised Institutions" under the Supervisory Policy Manual issued by 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

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.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

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

2. ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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.

The subsidiaries consolidated for accounting purposes 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 21 to the financial statements.

The subsidiary consolidated for computation of liquidity ratio and capital adequacy ratio for regulatory purpose is Public Finance.

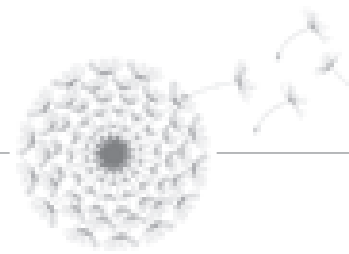
Basis of capital disclosures

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

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

The computation of the consolidated 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 the "Securities and Futures (Financial Resources) Rules" issued by the Securities and Futures Commission of Hong Kong. A portion of retained profits, based on a percentage of gross loans and advances, is set aside for non-distributable regulatory reserve as part of supplementary capital included in capital base pursuant to the HKMA capital requirements.



3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The HKICPA has issued a number of new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2011. The Group has adopted the following new and revised HKFRSs issued up to 31 December 2011 which are pertinent to its operations and relevant to these financial statements.

- | | |
|--------------------------------------|--|
| • HKFRS 1 Amendment | <i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> |
| • HKAS 24 (Revised) | <i>Related Party Disclosures</i> |
| • HKAS 32 Amendment | <i>Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues</i> |
| • HK(IFRIC)-Int 14 Amendments | <i>Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement</i> |
| • HK(IFRIC)-Int 19 | <i>Extinguishing Financial Liabilities with Equity Instruments</i> |
| • <i>Improvements to HKFRSs 2010</i> | <i>Amendments to a number of HKFRSs issued in May 2010</i> |

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

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 has no financial impact on the Group.

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The revised standard has no financial impact on the Group. Details of the related party transactions, including the related comparative information, are included in note 37 to the financial statements.

HKAS 32 Amendment addresses 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 amendment contained in this update requires 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 amendment has no financial impact on the Group.

HK(IFRIC)-Int 14 Amendments 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 have no financial impact on the Group.

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

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. As the Group has not re-negotiated the terms of any financial liability which resulted in the issue of equity instruments to settle such financial liability, the interpretation has no financial impact on the Group.

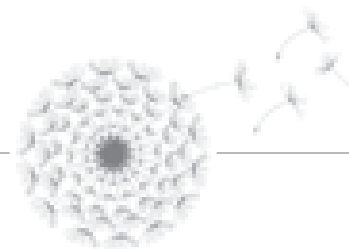
Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments applicable to the Group are as follows:

- (a) HKFRS 1 Amendment addresses the presentation and disclosure requirements for an 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 Amendment 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 precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date at fair value, unless another measurement basis is required by another HKFRS.

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

- (c) HKFRS 7 Amendment is intended to simplify the disclosures by reducing the volume of disclosures on collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- (d) HKAS 1 Amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.
- (e) HKAS 27 Amendment 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.



3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

- (f) HKAS 34 Amendment 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.
- (g) 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.

3.2 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 Amendments | <i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters¹</i> |
| • HKFRS 7 Amendments | <i>Amendments to HKFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets¹</i> |
| • HKFRS 7 Amendments | <i>Amendments to HKFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities⁴</i> |
| • HKFRS 9 | <i>Financial Instruments⁶</i> |
| • HKFRS 10 | <i>Consolidated Financial Statements⁴</i> |
| • HKFRS 11 | <i>Joint Arrangements⁴</i> |
| • HKFRS 12 | <i>Disclosure of Interests in Other Entities⁴</i> |
| • HKFRS 13 | <i>Fair Value Measurement⁴</i> |
| • HKAS 1 Amendments | <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income³</i> |
| • HKAS 12 Amendments | <i>Amendments to HKAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets²</i> |
| • HKAS 19 (2011) | <i>Employee Benefits⁴</i> |
| • HKAS 27 (2011) | <i>Separate Financial Statements⁴</i> |
| • HKAS 28 (2011) | <i>Investments in Associates and Joint Ventures⁴</i> |
| • HKAS 32 Amendments | <i>Amendments to HKAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities⁵</i> |
| • HK(IFRIC)-Int 20 | <i>Stripping Costs in the Production Phase of a Surface Mine⁴</i> |

- ¹ effective for annual periods beginning on or after 1 July 2011
² effective for annual periods beginning on or after 1 January 2012
³ effective for annual periods beginning on or after 1 July 2012
⁴ effective for annual periods beginning on or after 1 January 2013
⁵ effective for annual periods beginning on or after 1 January 2014
⁶ effective for annual periods beginning on or after 1 January 2015

3.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKFRS 1 Amendments introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation, whereby these entities can elect fair value as the deemed cost for assets and liabilities affected by severe hyperinflation in their first HKFRS financial statements. The amendments also remove the legacy fixed dates in HKFRS 1 relating to derecognition and day one gain or loss transactions. The amendments will not have any financial impact on the Group.

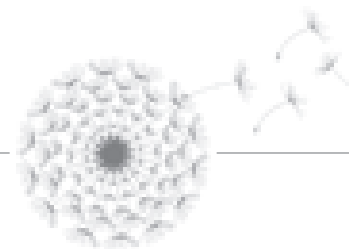
HKFRS 7 Amendments require an entity to disclose both quantitative and qualitative information for the derecognition of financial assets where the entity has a continuing involvement in the derecognised assets. The Group expects to adopt HKFRS 7 Amendments from 1 January 2012. As the Group does not have continuing involvement in the derecognised assets, the amendments will not have any financial impact on the Group.

HKFRS 7 Amendments issue new disclosure requirements in relation to the offsetting models of financial assets and financial liabilities. The amendments also improve the transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. The Group expects to adopt the amendments from 1 January 2013. The application of the amendments is unlikely to have any material financial impact on the Group.

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. 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 other comprehensive income will 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 the 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 2015.



3.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 *Consolidated and Separate Financial Statements* and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12. The application of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e. joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The application of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use has already been required or permitted under other HKFRSs. The Group expects to adopt the standard from 1 January 2013. The application of this new standard is unlikely to have any material financial impact on the Group.

HKAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013. The amendments affect presentation only and have no impact on the Group's financial position or performance.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012. Upon the adoption, the Group's deferred tax liability with respect to investment properties located in Hong Kong is expected to be reduced.

3.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013. The application of this new standard is unlikely to have any material financial impact on the Group.

HKAS 32 Amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of “currently has a legally enforceable right of set-off” and some gross settlement systems may be considered equivalent to net settlements. The Group expects to adopt the amendments from 1 January 2014. The application of these amendments is unlikely to have any material financial impact on the Group.

HK (IFRIC)-Int 20 addresses the recognition of waste removal costs that are incurred in surface mining activity during the production phase of a mine as an asset, as well as the initial measurement and subsequent measurement of the stripping activity asset. To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the costs incurred are accounted for in accordance with HKAS 2 *Inventories*. To the extent that the benefit is improved access to ore and when criteria set out in the interpretation are met, the waste removal costs are recognised as a stripping activity asset under non-current assets. The interpretation has no financial impact on the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

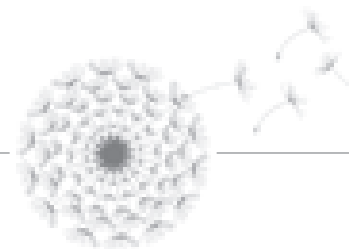
(1) Foreign currency translation

The consolidated financial statements are presented in Hong Kong dollars, which is the Group’s functional and presentation 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 arising on settlement or translation of monetary items 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.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(1) Foreign currency translation (Continued)

(i) Transactions and balances (Continued)

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. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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 the closing rate.

(ii) Group companies

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

(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".

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(iii) Derivative financial instruments (Continued)

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

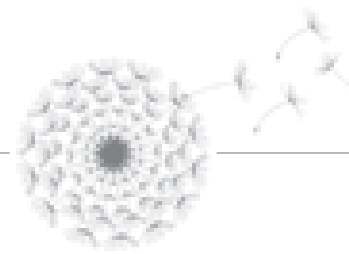
Financial assets classified in this category are held for trading or are designated by management on initial recognition when the following criteria are met:

- 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 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 held-to-maturity investments”.



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 available-for-sale financial assets” and removed from the “Available-for-sale financial asset revaluation reserve”.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(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.

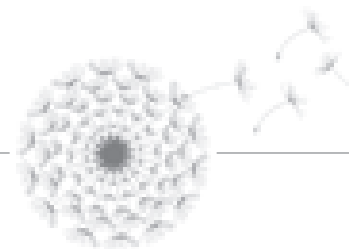
(ix) Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process using effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated income statement.

(3) 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 the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. 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.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) 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; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group 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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

(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.

(5) 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

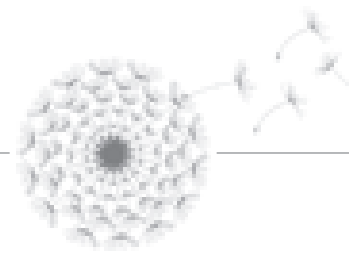
(6) Impairment of financial assets

The Group assesses at the end of each 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/have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has/have 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/are experiencing significant financial difficulty, default or delinquency in interest or principal payments, that it is possible that he/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 the Group 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.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) Impairment of financial assets (Continued)

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

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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) Impairment of financial assets (Continued)

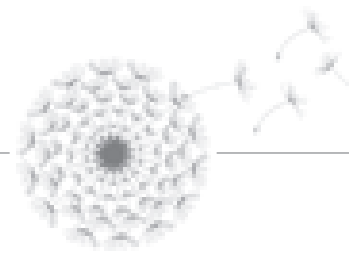
(iii) Available-for-sale financial assets

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

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is removed from other comprehensive income and recognised in the consolidated income statement.

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 an investment below its cost. The determination of what is “significant” or “prolonged” requires judgement. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original 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 other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the consolidated income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

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. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(8) 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*

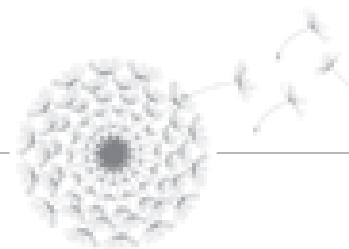
Fees earned from the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (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.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(8) Recognition of revenue and expenditure (Continued)

(iv) Net trading income

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

(v) Rental income

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

(9) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, amounts due from banks on demand or with original maturity within three months and held-to-maturity investments with original maturity within three months.

(10) Business combinations and goodwill

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 Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree’s identifiable net assets. All other components of non-controlling interests are measured at fair value. 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 or 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 will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) Business combinations and goodwill (Continued)

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 identifiable net 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.

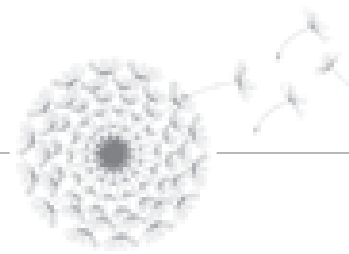
Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. 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.

(11) Subsidiaries

A subsidiary is an entity whose financial and operating policies the Bank controls, directly or indirectly, so as to obtain benefits from its activities.

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



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(12) Joint venture companies and jointly-controlled entity

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

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

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (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 its 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 entity is 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 jointly-controlled entities 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 result of jointly-controlled entity is included in the Group's consolidated income statement to the extent of dividends received and receivable. The Group's interest in jointly-controlled entity is treated as non-current asset and is stated at cost less any impairment losses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

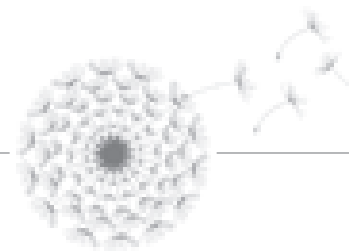
(13) Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(14) 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 life. 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(15) 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.

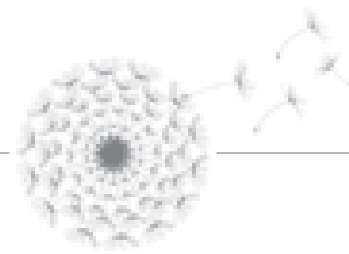
For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts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

(16) Intangible assets (other than goodwill)

Intangible assets, representing eligibility rights to trade on or through Hong Kong Exchanges and Clearing Limited, are stated at cost less impairment. The useful lives are assessed to be indefinite and they are reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis. The carrying amount of intangible assets is subject to an annual impairment test, and impairment, if any, is charged to the consolidated income statement.

(17) 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.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(17) Impairment of non-financial assets (Continued)

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 been 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.

(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 the repossessed assets and the outstanding advances.

Collateral assets (including repossessed assets and assets not yet repossessed) are recognised at the lower of the 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(20) Income tax (Continued)

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:

- when the deferred tax liability arises from the initial recognition of an asset or a 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 joint ventures, when 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.

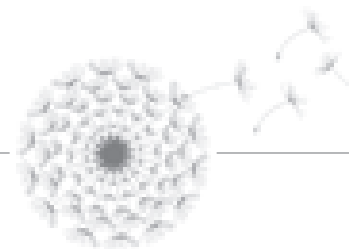
Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credit and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences,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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or a 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 joint ventures, 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 the end of each 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 the end of each 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.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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. 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.

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 as an expense and credited to an employee share-based compensation reserve under equity. 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 the end of each reporting period, the PFHL Group revises its estimates of the number of options that is 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(21) Employee benefits (Continued)

(c) Employee leave entitlements

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

(22) Dividends

Final dividends proposed by the directors are classified as a separate allocation at 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.

5. SIGNIFICANT ACCOUNTING ESTIMATES

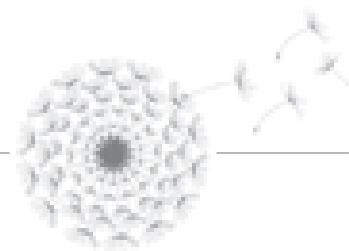
Estimation uncertainty

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 described below.

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

The Group reviews its portfolios of loans and advances and receivables and held-to-maturity investments to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the 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 advances and receivables 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.



5. SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

Estimation uncertainty (Continued)

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 2011 was HK\$242,342,000 (2010: HK\$242,342,000). Further details are set out in note 27 to the financial statements.

6. SEGMENT INFORMATION

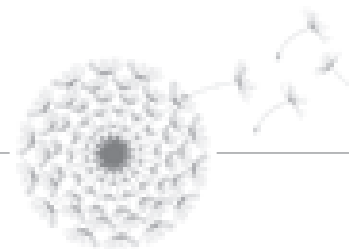
In accordance with the Group's internal financial reporting, the Group has identified operating segments based on similar economic characteristics, products and services and delivery methods. The operating segments are identified by senior management who is designated as the "Chief Operating Decision Maker" to make decisions about resource allocation to the segments and assess their performance. A summary of the operating segments is 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 the provision of authorised wealth management products and services; and
- other businesses segments comprise letting of investment properties.

6. SEGMENT INFORMATION (Continued)

The following table represents revenue and profit information for operating segments for the years ended 31 December 2011 and 2010, and certain asset and liability information regarding operating segments as at 31 December 2011 and 2010.

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue								
Net interest income	1,205,444	1,256,836	59	40	-	-	1,205,503	1,256,876
Other operating income:								
Fees and commission income	150,575	143,260	93,783	101,703	-	-	244,358	244,963
Others	10,990	15,337	-	-	6,358	6,228	17,348	21,565
Operating income	1,367,009	1,415,433	93,842	101,743	6,358	6,228	1,467,209	1,523,404
Profit before tax	423,306	486,270	21,622	50,620	5,543	6,986	450,471	543,876
Tax							(79,872)	(90,125)
Profit for the year							370,599	453,751
Segment assets other than interests in a jointly-controlled entity and intangible assets	35,916,099	36,162,655	242,036	382,874	48,309	47,338	36,206,444	36,592,867
Interest 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
	36,159,954	36,406,510	242,754	383,592	48,309	47,338	36,451,017	36,837,440
Unallocated assets:								
Deferred tax assets and tax recoverable							36,976	10,534
Total assets							36,487,993	36,847,974
Segment liabilities	31,326,978	31,641,399	64,984	228,923	2,775	59,984	31,394,737	31,930,306
Unallocated liabilities:								
Deferred tax liabilities and tax payable							36,997	48,165
Total liabilities							31,431,734	31,978,471
Other segment information								
Additions to non-current assets – capital expenditure	16,110	16,933	-	-	-	-	16,110	16,933
Depreciation of property and equipment and land held under finance leases	24,864	24,594	-	-	-	-	24,864	24,594
Changes in fair value of investment properties	-	-	-	-	(971)	(2,478)	(971)	(2,478)
Impairment allowances for loans and advances and receivables	324,014	281,045	-	-	-	-	324,014	281,045
Net loss on disposal of property and equipment	199	108	-	-	-	-	199	108



6. SEGMENT INFORMATION (Continued)

Geographical information

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

7. INTEREST INCOME AND EXPENSE

	2011 HK\$'000	2010 HK\$'000
Interest income from:		
Loans and advances and receivables	1,445,482	1,386,727
Short term placements and placements with banks	46,682	29,316
Held-to-maturity investments	59,666	73,067
	1,551,830	1,489,110
Interest expense on:		
Deposits from banks and financial institutions	10,566	8,406
Deposits from customers	325,399	220,370
Bank loans	10,362	3,458
	346,327	232,234

Interest income and interest expense for the year ended 31 December 2011, calculated using the effective interest method on financial assets and financial liabilities which are not designated at fair value through profit or loss, amounted to HK\$1,551,830,000 and HK\$346,327,000 (2010: HK\$1,489,110,000 and HK\$232,234,000) respectively. Interest income on the impaired loans and advances for the year ended 31 December 2011 amounted to HK\$5,256,000 (2010: HK\$10,850,000).

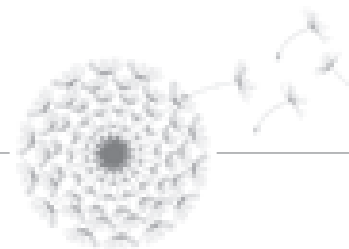
8. OTHER OPERATING INCOME

	2011 HK\$'000	2010 HK\$'000
Fees and commission income:		
Retail and commercial banking	151,709	144,357
Wealth management services, stockbroking and securities management	93,783	101,703
	245,492	246,060
Less: Fees and commission expenses	(1,134)	(1,097)
Net fees and commission income	244,358	244,963
Gross rental income	6,396	6,264
Less: Direct operating expenses	(38)	(36)
Net rental income	6,358	6,228
Gains less losses arising from dealing in foreign currencies	7,297	11,668
Dividend income from unlisted investments	500	980
Dividend income from listed investments	13	13
Net losses on disposal of property and equipment	(199)	(108)
Others	3,379	2,784
	261,706	266,528

Direct operating expenses include repair and maintenance expenses arising from investment properties.

There were no net gains or losses arising from held-to-maturity investments, loans and advances and receivables, financial liabilities at amortised cost and financial liabilities designated at fair value through profit or loss for the years ended 31 December 2011 and 2010.

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



9. OPERATING EXPENSES

	Notes	2011 HK\$'000	2010 HK\$'000
Staff costs:			
Salaries and other staff costs		372,917	356,253
Pension contributions		17,096	15,627
Less: Forfeited contributions		(18)	(46)
Net retirement benefit schemes		17,078	15,581
		389,995	371,834
Other operating expenses:			
Operating lease rentals on leasehold buildings		51,594	47,469
Depreciation of property and equipment and land held under finance leases	24, 25	24,864	24,594
Auditors' remuneration		3,145	2,993
Administrative and general expenses		66,064	63,094
Others		192,190	190,977
Operating expenses before changes in fair value of investment properties		727,852	700,961

As at 31 December 2011 and 2010, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The current year credits arose in respect of staff who left the schemes during the year.

10. IMPAIRMENT ALLOWANCES

	2011 HK\$'000	2010 HK\$'000
Net charge for/(write-back of) impairment losses and allowances:		
– Loans and advances	326,405	278,731
– Trade bills, accrued interest and receivables	(2,391)	2,314
	324,014	281,045
Net charge for/(write-back of) impairment losses and allowances:		
– Individually assessed	327,094	357,869
– Collectively assessed	(3,080)	(76,824)
	324,014	281,045
Of which:		
– new impairment losses and allowances (including any amount directly written off during the year)	486,661	509,323
– releases and recoveries	(162,647)	(228,278)
Net charge to the consolidated income statement	324,014	281,045

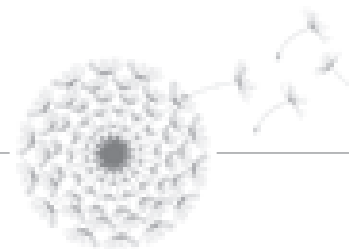
There were no impairment allowances for financial assets other than loans and advances and receivables for the years ended 31 December 2011 and 2010.

11. DIRECTORS' REMUNERATION

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

	2011 HK\$'000	2010 HK\$'000
Fees	860	860
Other emoluments	4,537	4,226
	5,397	5,086

Notes to Financial Statements



12. TAX

	2011 HK\$'000	2010 HK\$'000
Current tax charge:		
Hong Kong	68,638	82,333
Elsewhere	18,892	5,323
Underprovisions/(overprovisions) in prior years	2,157	(1,579)
Deferred tax (credit)/charge, net (note 31)	(9,815)	4,048
	79,872	90,125

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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		2011 Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	444,903		5,568		450,471	
Tax at the applicable tax rate	73,409	16.5	1,336	24.0	74,745	16.6
Effect on change in tax rate	-	-	74	1.3	74	-
Estimated tax effect of net expenses that are not deductible	1,350	0.3	-	-	1,350	0.3
Estimated tax losses from previous periods utilised	(5)	-	-	-	(5)	-
Adjustments in respect of deferred tax of previous periods	1,900	0.4	(349)	(6.3)	1,551	0.3
Adjustments in respect of current tax of previous periods	1,500	0.4	657	11.8	2,157	0.5
Tax charge at the Group's effective rate	78,154	17.6	1,718	30.8	79,872	17.7

12. TAX (Continued)

	Hong Kong		2010 Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>511,860</u>		<u>32,016</u>		<u>543,876</u>	
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	<u>86,888</u>	17.0	<u>3,237</u>	10.1	<u>90,125</u>	16.6

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE BANK

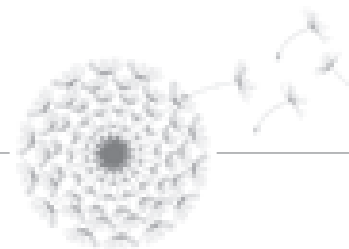
The consolidated profit attributable to owners of the Bank for the year ended 31 December 2011 included a profit of HK\$371,712,000 (2010: HK\$270,800,000) which has been dealt with in the financial statements of the Bank (note 33).

14. DIVIDENDS

(a) Dividends approved and paid during the year

	2011	2010	2011	2010
	HK\$ per ordinary share	HK\$ per ordinary share	HK\$'000	HK\$'000
Interim dividend	6.410	7.187	94,971	106,483
Final dividend in respect of previous year	7.162	5.895	106,112	87,340
	13.572	13.082	201,083	193,823

Final dividend for the year ended 31 December 2010 was paid in year 2011 with the consent of shareholders at the 2011 annual general meeting.



14. DIVIDENDS (Continued)

(b) Dividends attributable to the year

	2011 HK\$ per ordinary share	2010 HK\$ per ordinary share	2011 HK\$'000	2010 HK\$'000
Interim dividend	6.410	7.187	94,971	106,483
Proposed final dividend	5.295	7.162	78,451	106,112
	11.705	14.349	173,422	212,595

The proposed final dividend was recommended after respective year end and had not been recognised as a liability at respective year end dates. The proposed final dividend of 2010 was approved and paid in 2011 and proposed final dividend of 2011 is subject to the approval of shareholders at the 2012 annual general meeting.

15. CASH AND SHORT TERM PLACEMENTS

	Group 2011 HK\$'000	2010 HK\$'000	Bank 2011 HK\$'000	2010 HK\$'000
Cash in hand	185,260	123,198	167,670	109,218
Placements with banks and financial institutions	843,826	558,749	802,274	499,955
Money at call and short notice	3,545,026	5,336,662	3,533,650	5,325,296
	4,574,112	6,018,609	4,503,594	5,934,469

Over 90% of the placements were rated with a 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.

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

	Group and Bank	
	2011	2010
	HK\$'000	HK\$'000
Placements with banks and financial institutions	513,527	723,715

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

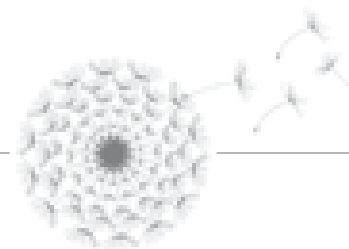
There were no overdue or rescheduled placements with banks and financial institutions and no impairment allowances for such placements accordingly.

17. LOANS AND ADVANCES AND RECEIVABLES

	Group		Bank	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loans and advances to customers	27,465,998	26,714,360	22,885,387	22,402,423
Trade bills	7,264	31,170	7,264	31,170
Loans and advances, and trade bills	27,473,262	26,745,530	22,892,651	22,433,593
Accrued interest	88,391	81,829	34,714	33,639
Other receivables	27,561,653	26,827,359	22,927,365	22,467,232
	4,012	3,768	4,012	3,768
Gross loans and advances and receivables	27,565,665	26,831,127	22,931,377	22,471,000
Less: Impairment allowances for loans and advances and receivables				
– Individually assessed	(165,813)	(171,645)	(77,634)	(80,867)
– Collectively assessed	(29,796)	(32,876)	(18,000)	(20,000)
	(195,609)	(204,521)	(95,634)	(100,867)
Loans and advances and receivables	27,370,056	26,626,606	22,835,743	22,370,133

Over 90% of the loans and advances and receivables were unrated exposures. Over 90% of the collateral for the Group's and the Bank's secured loans and advances and receivables were customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

Notes to Financial Statements



17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

Loans and advances and receivables are summarised as follows:

	Group		Bank	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Neither past due nor impaired loans and advances and receivables	26,866,613	25,961,121	22,635,126	21,956,271
Past due but not impaired loans and advances and receivables	409,975	539,224	139,579	319,011
Individually impaired loans and advances	275,695	315,307	143,290	180,243
Individually impaired receivables	13,382	15,475	13,382	15,475
Total loans and advances and receivables	27,565,665	26,831,127	22,931,377	22,471,000

About 64% of “Neither past due nor impaired loans and advances and receivables” were residential property mortgage loans, commercial property mortgage loans and hire purchase loans secured by customer deposits, properties, taxi licences and vehicles.

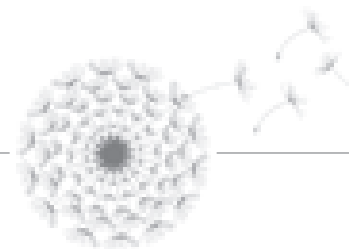
(a) (i) Ageing analysis of overdue and impaired loans and advances

	Group				Bank			
	2011		2010		2011		2010	
	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	106,649	0.39	90,527	0.34	9,897	0.04	466	-
One year or less but over six months	2,410	0.01	5,621	0.02	239	-	1,340	-
Over one year	131,786	0.48	175,919	0.66	131,786	0.58	175,919	0.79
Loans and advances overdue for more than three months	240,845	0.88	272,067	1.02	141,922	0.62	177,225	0.79
Rescheduled loans and advances overdue for three months or less	31,362	0.11	39,328	0.15	850	0.01	2,259	0.01
Impaired accounts overdue for three months or less	3,488	0.01	3,912	0.01	518	-	259	-
Total overdue and impaired loans and advances	275,695	1.00	315,307	1.18	143,290	0.63	180,243	0.80

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)**(a) (ii) Ageing analysis of overdue and impaired trade bills, accrued interest and other receivables**

	Group and Bank	
	2011	2010
	HK\$'000	HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	328	12
One year or less but over six months	1	1,778
Over one year	13,049	13,683
Trade bills, accrued interest and other receivables overdue for more than three months	13,378	15,473
Impaired accounts overdue for three months or less	4	2
Total overdue and impaired trade bills, accrued interest and other receivables	13,382	15,475

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.



17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

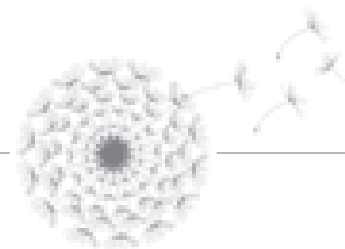
(i) Analysis of overdue loans and advances and receivables

	2011			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
Loans and advances and receivables overdue for more than three months	102,436	151,787	254,223	3,513	151,787	155,300
Individual impairment allowances	70,174	75,111	145,285	1,441	75,111	76,552
Current market value and fair value of collateral			203,239			203,239
Loans and advances and receivables overdue for 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
Current market value and fair value of collateral			252,189			252,189

17. 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)****(ii) Analysis of impaired loans and advances and receivables**

2011	Group			Bank		
	Hong Kong	Mainland China	Total	Hong Kong	Mainland China	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impaired loans and advances and receivables	137,290	151,787	289,077	4,885	151,787	156,672
Individual impairment allowances	90,702	75,111	165,813	2,523	75,111	77,634
Current market value and fair value of collateral			205,728			205,728
2010						
	Hong Kong	Group Mainland China	Total	Hong Kong	Bank Mainland China	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
Current market value and fair value of collateral			253,689			253,689

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.



17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	Group		Bank	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	203,239	252,189	203,239	252,189
Covered portion of overdue loans and advances	75,741	88,701	75,741	88,701
Uncovered portion of overdue loans and advances	165,104	183,366	66,181	89,024

The assets taken as collateral should satisfy the following criteria:

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

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

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

(d) Repossessed assets

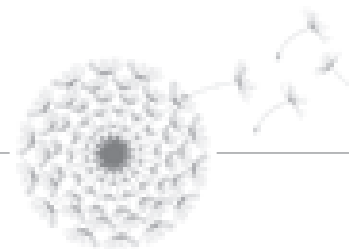
As at 31 December 2011, the total value of repossessed assets of the Group was HK\$3,100,000 (2010: HK\$26,190,000).

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

	Group				Bank			
	2011 Gross amount HK\$'000	Percentage of total loans and advances %	2010 Gross amount HK\$'000	Percentage of total loans and advances %	2011 Gross amount HK\$'000	Percentage of total loans and advances %	2010 Gross amount HK\$'000	Percentage of total loans and advances %
Loans and advances overdue for less than three months	409,327	1.49	538,292	2.01	138,931	0.61	318,079	1.42
Rescheduled but not impaired loans and advances	-	-	-	-	-	-	-	-
	409,327	1.49	538,292	2.01	138,931	0.61	318,079	1.42
Trade bills, accrued interest and other receivables overdue for less than three months	648		932		648		932	

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)**(f) Movements in impairment losses and allowances on loans and advances and receivables**

	Group		2011		Bank	
	Individual	Collective	Total	Individual	Collective	Total
	impairment	impairment		impairment	impairment	
	allowances	allowances	allowances	allowances		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2011	171,645	32,876	204,521	80,867	20,000	100,867
Amounts written off	(487,712)	-	(487,712)	(36,025)	-	(36,025)
Impairment losses and allowances charged to the consolidated income statement	483,893	2,768	486,661	34,805	2,736	37,541
Impairment losses and allowances released to the consolidated income statement	(156,799)	(5,848)	(162,647)	(8,703)	(4,736)	(13,439)
Net charge/(release) of impairment losses and allowances	327,094	(3,080)	324,014	26,102	(2,000)	24,102
Loans and advances and receivables recovered	151,827	-	151,827	3,731	-	3,731
Exchange difference	2,959	-	2,959	2,959	-	2,959
At 31 December 2011	165,813	29,796	195,609	77,634	18,000	95,634
Deducted from:						
Loans and advances	163,871	29,765	193,636	75,692	17,969	93,661
Trade bills, accrued interest and other receivables	1,942	31	1,973	1,942	31	1,973
	165,813	29,796	195,609	77,634	18,000	95,634



17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

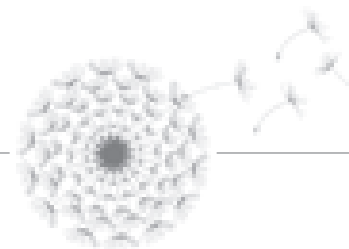
	Group		2010		Bank	
	Individual impairment allowances	Collective impairment allowances	Total	Individual impairment allowances	Collective impairment allowances	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010	160,365	109,654	270,019	115,761	25,616	141,377
Amounts written off	(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/(release) 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

17. 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:

	Group		Bank	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts receivable under finance leases:				
Within one year	397,658	310,299	349,085	272,802
In the second to fifth years, inclusive	1,059,544	805,156	932,424	714,386
Over five years	3,510,259	2,986,859	3,066,537	2,617,530
	4,967,461	4,102,314	4,348,046	3,604,718
Less: Unearned finance income	(865,147)		(743,328)	
Present value of minimum lease payments receivable	4,102,314		3,604,718	



17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(g) Finance lease receivables (Continued)

	Group		Bank	
	2010		2010	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts receivable under finance leases:				
Within one year	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
	<u>5,405,537</u>	<u>4,477,722</u>	<u>4,854,462</u>	<u>4,029,757</u>
Less: Unearned finance income	<u>(927,815)</u>		<u>(824,705)</u>	
Present value of minimum lease payments receivable	<u>4,477,722</u>		<u>4,029,757</u>	

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.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Bank	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted equity investments, at fair value:				
At the beginning and the end of the year	<u>6,804</u>	6,804	<u>6,804</u>	6,804

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

19. HELD-TO-MATURITY INVESTMENTS

	Group		Bank	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Unlisted:				
Certificates of deposit held	1,042,281	147,767	1,042,281	147,767
Treasury bills (including Exchange Fund Bills)	1,489,901	1,099,681	1,479,910	1,099,681
Other debt securities	889,321	1,462,328	889,321	1,462,328
	3,421,503	2,709,776	3,411,512	2,709,776
Analysed by type of issuers:				
– Central government	1,489,901	1,099,681	1,479,910	1,099,681
– Banks and other financial institutions	1,931,602	1,610,095	1,931,602	1,610,095
	3,421,503	2,709,776	3,411,512	2,709,776

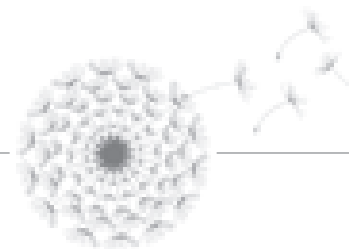
Impairment allowances of held-to-maturity investments were nil as at 31 December 2011 and 2010. There were no movements in impairment allowances for the years ended 31 December 2011 and 2010.

There were neither impaired nor overdue held-to-maturity investments as at 31 December 2011 and 2010. There were no listed held-to-maturity investments as at 31 December 2011 and 2010.

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

20. INVESTMENT IN SUBSIDIARIES

	Bank	
	2011 HK\$'000	2010 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



20. INVESTMENT IN SUBSIDIARIES (Continued)

Particulars of the Bank's subsidiaries, all of which are 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

21. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group		Bank	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 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:

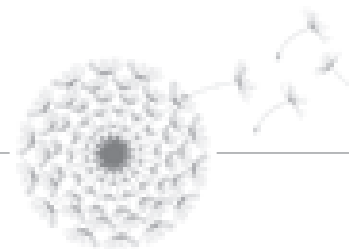
Name	Business structure	Place of incorporation and operations	Percentage of ownership, interest and profit sharing %	Voting power	Principal activity
Net Alliance Co. Limited	Corporate	Hong Kong	17.6	2 out of 8*	Provision of electronic banking support services

* 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:

	2011 HK\$'000	2010 HK\$'000
Share of the jointly-controlled entity's assets and liabilities:		
Assets	1,898	1,774
Liabilities	(385)	(261)
Net assets	1,513	1,513
Share of the jointly-controlled entity's profit or loss:		
Total income	1,481	1,614
Total expenses	(1,481)	(1,614)
Profit/(loss) after tax	-	-

Notes to Financial Statements



22. OTHER ASSETS

	Group		Bank	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Interest receivables from authorised institutions	4,105	3,108	4,105	3,108
Other debtors, deposits and prepayments	93,949	266,879	63,855	174,841
	98,054	269,987	67,960	177,949

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

23. INTANGIBLE ASSETS

	Group	
	2011 HK\$'000	2010 HK\$'000
Cost:		
At the beginning of the year and the end of the year	1,923	1,923
Accumulated impairment:		
At the beginning of the year and the end of the year	1,205	1,205
Net carrying amount:		
At the beginning of the year and the end of the year	718	718

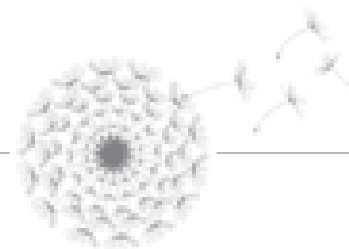
Intangible assets represent trading rights held by the Group. The trading rights are retained for stock trading and stockbroking activities, and have indefinite useful lives as the trading rights have no expiry date. They comprise five units (2010: five units) of Stock Exchange Trading Right and one unit (2010: 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 2011 and 2010.

24. PROPERTY AND EQUIPMENT

	Group			Bank		
	2011			2011		
	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
Cost:						
At 1 January 2011	17,090	148,891	165,981	14,887	129,370	144,257
Additions	-	16,110	16,110	-	11,473	11,473
Disposals/write-off	-	(451)	(451)	-	(176)	(176)
At 31 December 2011	17,090	164,550	181,640	14,887	140,667	155,554
Accumulated depreciation:						
At 1 January 2011	4,568	92,804	97,372	3,896	84,873	88,769
Provided during the year	327	21,276	21,603	269	15,588	15,857
Disposals/write-off	-	(252)	(252)	-	(150)	(150)
Exchange difference	53	-	53	53	-	53
At 31 December 2011	4,948	113,828	118,776	4,218	100,311	104,529
Net carrying amount:						
At 31 December 2011	12,142	50,722	62,864	10,669	40,356	51,025
At 31 December 2010	12,522	56,087	68,609	10,991	44,497	55,488

Notes to Financial Statements



24. PROPERTY AND EQUIPMENT (Continued)

	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
2010						
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 carrying amount:						
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

No valuation has been made for the above items of property and equipment for the years ended 31 December 2011 and 2010.

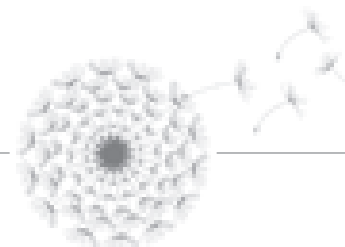
25. LAND HELD UNDER FINANCE LEASES

	Group HK\$'000	Bank HK\$'000
Cost:		
At 1 January 2010	132,931	131,693
Transfer from investment properties	4,265	–
At 31 December 2010 and 31 December 2011	137,196	131,693
Accumulated depreciation and impairment:		
At 1 January 2010	22,724	20,614
Depreciation provided during the year	3,216	2,723
At 31 December 2010 and 1 January 2011	25,940	23,337
Depreciation provided during the year	3,261	2,723
At 31 December 2011	29,201	26,060
Net carrying amount:		
At 31 December 2011	107,995	105,633
At 31 December 2010	111,256	108,356

The Group's and the Bank's land held under finance leases at net carrying amount are held under the following lease terms:

	Group		Bank	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Leaseholds:				
Held in Hong Kong				
– On medium term leases	84,169	86,867	76,564	78,718
– On long term leases	7,170	7,178	12,413	12,427
Held outside Hong Kong				
– On medium term leases	16,656	17,211	16,656	17,211
	107,995	111,256	105,633	108,356

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



26. INVESTMENT PROPERTIES

	Group		Bank	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Carrying amount at 1 January	47,338	49,568	22,049	20,999
Transfer to property and equipment	-	(4,708)	-	-
Carrying amount before change in fair value	47,338	44,860	22,049	20,999
Change in fair value	971	2,478	752	1,050
Carrying amount at 31 December	48,309	47,338	22,801	22,049

At 31 December 2011, investment properties with a carrying amount of HK\$47,338,000 (2010: HK\$44,860,000) were revalued at HK\$48,309,000 (2010: HK\$47,338,000) according to a revaluation report issued by C S Surveyors Limited, a firm of independent professionally qualified valuers, on an open market value and existing use basis. The increase in fair value of HK\$971,000 (2010: HK\$2,478,000) resulting from the above valuation has been credited to the consolidated income statement.

The investment properties held by the Group are let under operating leases from which the Group earns rental income. Details of future annual rental receivables under operating leases are included in note 36(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.

27. GOODWILL

	Group	
	2011 HK\$'000	2010 HK\$'000
Cost and net carrying amount:		
At the beginning and 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 rates of 4% and 7% under baseline and stressed scenarios, respectively. Management's financial model assumes an average growth rates of 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 2011 and 2010 as its value in use exceeds the carrying amount.

28. CUSTOMER DEPOSITS AT AMORTISED COST

	Group		Bank	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Demand deposits and current accounts	2,153,172	2,051,711	2,328,457	2,194,623
Savings deposits	3,672,099	4,563,894	3,672,240	4,564,035
Time, call and notice deposits	22,575,060	23,129,368	19,131,095	20,017,014
	28,400,331	29,744,973	25,131,792	26,775,672

29. UNSECURED BANK LOANS AT AMORTISED COST

	Group		Bank	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Unsecured bank loans, repayable on demand or within a period not exceeding one year	798,075	878,939	798,075	798,939

The amount repayable on demand of the Group was nil as at 31 December 2011 (2010: HK\$80,000,000). The term loan as at 31 December 2010 was callable by the lender, but management did not expect the lender to exercise its right to demand repayment in normal circumstances.

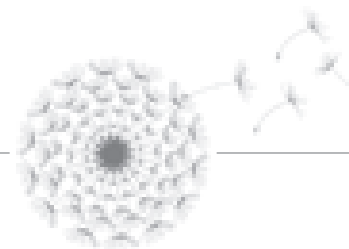
The unsecured bank loans were denominated in Hong Kong dollars. Carrying amounts of the unsecured bank loans bore interest at floating interest rates and at prevailing market rates.

30. OTHER LIABILITIES

	Group		Bank	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Interest payable	80,084	46,169	67,907	38,576
Creditors, accruals and other payables	354,789	374,408	263,049	218,237
Due to subsidiaries	–	–	21,919	39,820
	434,873	420,577	352,875	296,633

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



31. DEFERRED TAX

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

Group

Deferred tax assets:

	At 1 January 2010 HK\$'000	Effect of change in tax rates credited to income statement HK\$'000	Deferred tax credited/ (charged) to income statement HK\$'000	At 31 December 2011 HK\$'000	Effect of change in tax rates credited to income statement HK\$'000	Deferred tax credited to income statement HK\$'000	At 31 December 2011 HK\$'000
Impairment allowances for loans and advances and receivables	8,142	71	1,420	9,633	-	11,620	21,253
Recoverable tax loss	5,225	-	(5,225)	-	-	-	-
	13,367	71	(3,805)	9,633	-	11,620	21,253

Deferred tax liabilities:

	At 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 2011 HK\$'000	Effect of change in tax rates charged to income statement HK\$'000	Deferred tax charged to income statement HK\$'000	At 31 December 2011 HK\$'000
Depreciation allowance in excess of related depreciation	2,612	111	(207)	2,516	74	1,571	4,161
Revaluation of investment properties	4,330	-	410	4,740	-	160	4,900
	6,942	111	203	7,256	74	1,731	9,061

31. DEFERRED TAX (Continued)

Bank

Deferred tax assets:

	At 1 January 2010 HK\$'000	Effect of change in tax rates credited to income statement HK\$'000	Deferred tax credited/ (charged) to income statement HK\$'000	At 31 December 2010 and 1 January 2011 HK\$'000	Effect of change in tax rates credited to income statement HK\$'000	Deferred tax credited to income statement HK\$'000	At 31 December 2011 HK\$'000
Impairment allowances for loans and advances and receivables	6,218	71	1,219	7,508	-	11,799	19,307
Recoverable tax loss	5,225	-	(5,225)	-	-	-	-
	11,443	71	(4,006)	7,508	-	11,799	19,307

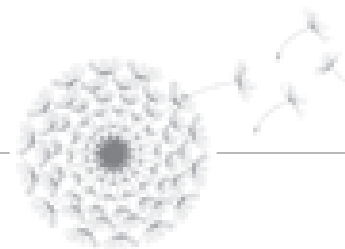
Deferred tax liabilities:

	At 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 and 1 January 2011 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 2011 HK\$'000
Depreciation allowance in excess of related depreciation	3,198	111	(303)	3,006	74	(188)	2,892
Revaluation of investment properties	3,343	-	173	3,516	-	124	3,640
	6,541	111	(130)	6,522	74	(64)	6,532

32. SHARE CAPITAL

	Bank 2011 HK\$'000	2010 HK\$'000
Authorised: 20,000,000 (2010: 20,000,000) ordinary shares of HK\$100 each	2,000,000	2,000,000
Issued and fully paid: 14,816,000 (2010: 14,816,000) ordinary shares of HK\$100 each	1,481,600	1,481,600

Notes to Financial Statements



33. RESERVES

Group

	Share premium account HK\$'000	Group reconstruction 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 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 14)	-	-	-	-	(87,340)	-	(87,340)
Dividends paid in respect of current year (note 14)	-	-	-	-	(106,483)	-	(106,483)
At 31 December 2010 and 1 January 2011	1,372,445	3,065	17,660	322,324	1,624,224	48,185	3,387,903
Profit for the year	-	-	-	-	370,599	-	370,599
Exchange differences	-	-	-	-	-	17,240	17,240
Transfer from retained profits	-	-	-	86,171	(86,171)	-	-
Dividends paid in respect of previous year (note 14)	-	-	-	-	(106,112)	-	(106,112)
Dividends paid in respect of current year (note 14)	-	-	-	-	(94,971)	-	(94,971)
At 31 December 2011	1,372,445	3,065	17,660	408,495	1,707,569	65,425	3,574,659

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 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 14)	-	-	-	(87,340)	-	(87,340)
Dividends paid in respect of current year (note 14)	-	-	-	(106,483)	-	(106,483)
At 31 December 2010 and 1 January 2011	1,372,445	3,660	246,821	1,576,442	48,185	3,247,553
Profit for the year	-	-	-	371,712	-	371,712
Exchange differences	-	-	-	-	17,240	17,240
Transfer from retained profits	-	-	78,485	(78,485)	-	-
Dividends paid in respect of previous year (note 14)	-	-	-	(106,112)	-	(106,112)
Dividends paid in respect of current year (note 14)	-	-	-	(94,971)	-	(94,971)
At 31 December 2011	1,372,445	3,660	325,306	1,668,586	65,425	3,435,422

Note: In accordance with the HKMA's guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reporting" (the "Guideline"), the Bank's regulatory reserve and collective impairment allowance were included as supplementary capital in the Group's capital base at 31 December 2011 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 requirements from the HKMA.

34. 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	
	2011	2010
	HK\$'000	HK\$'000
Aggregate amount of principal and interest outstanding at the end of the year	239	227
Maximum aggregate amount of principal and interest outstanding during the year	782	764

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.

35. OFF-BALANCE SHEET EXPOSURE

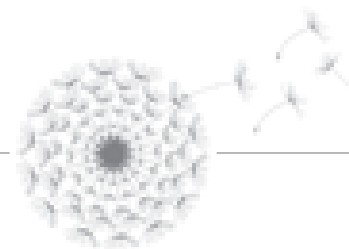
(a) Contingent liabilities, commitments and derivatives

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 year:

Group

	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	2011 Credit risk- weighted amount HK\$'000	Positive fair value- assets HK\$'000	Negative fair value- liabilities HK\$'000
Direct credit substitutes	184,720	184,720	24,824	-	-
Transaction-related contingencies	19,554	9,777	272	-	-
Trade-related contingencies	152,314	30,463	28,166	-	-
Forward forward deposits placed	66,200	66,200	13,240	-	-
Forward asset purchases	5,233	5,233	1,047	-	-
	428,021	296,393	67,549	-	-
Derivatives held for trading (note 35(b)):					
Foreign exchange rate contracts	906,270	10,458	92	3,220	2,051
Interest rate swaps	-	-	-	-	-
	906,270	10,458	92	3,220	2,051
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	134,394	67,197	67,197	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,054,708	-	-	-	-
	4,523,393	374,048	134,838	3,220	2,051
Capital commitments contracted for, but not provided in the statement of financial position	11,264				

Notes to Financial Statements



35. OFF-BALANCE SHEET EXPOSURE (Continued)

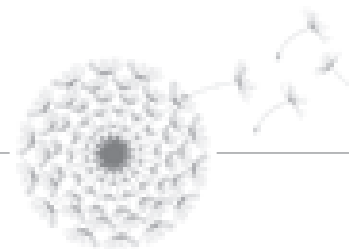
(a) Contingent liabilities, commitments and derivatives (Continued)

Bank

	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	2011 Credit risk- weighted amount HK\$'000	Positive fair value- assets HK\$'000	Negative fair value- liabilities HK\$'000
Direct credit substitutes	184,720	184,720	24,824	-	-
Transaction-related contingencies	19,554	9,777	272	-	-
Trade-related contingencies	152,314	30,463	28,166	-	-
Forward forward deposits placed	66,200	66,200	13,240	-	-
Forward asset purchases	5,233	5,233	1,047	-	-
	428,021	296,393	67,549	-	-
Derivatives held for trading (note 35(b)):					
Foreign exchange rate contracts	906,270	10,458	92	3,220	2,051
Interest rate swaps	-	-	-	-	-
	906,270	10,458	92	3,220	2,051
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	134,394	67,197	67,197	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,944,595	-	-	-	-
	4,413,280	374,048	134,838	3,220	2,051
Capital commitments contracted for, but not provided in the statement of financial position	10,929				

35. OFF-BALANCE SHEET EXPOSURE (Continued)**(a) Contingent liabilities, commitments and derivatives (Continued)**

Group	2010				
	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	Credit risk-weighted amount HK\$'000	Positive fair value-assets HK\$'000	Negative fair value-liabilities HK\$'000
Direct credit substitutes	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	–	–
	<u>374,687</u>	<u>283,902</u>	<u>50,359</u>	<u>–</u>	<u>–</u>
Derivatives held for trading (note 35(b)):					
Foreign exchange rate contracts	579,220	14,888	47	10,145	5,435
Interest rate swaps	200,000	–	–	22	–
	<u>779,220</u>	<u>14,888</u>	<u>47</u>	<u>10,167</u>	<u>5,435</u>
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than 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	–	–	–	–
	<u>5,580,979</u>	<u>429,292</u>	<u>180,908</u>	<u>10,167</u>	<u>5,435</u>
Capital commitments contracted for, but not provided in the statement of financial position	<u>7,150</u>				



35. 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 35(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:					
Not more than one year	–	–	–	–	–
More than 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 commitments contracted for, but not provided in the statement of financial position	6,629				

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.

Save as disclosed above, the Group and the Bank had no material outstanding contingent liabilities and commitments as at 31 December 2011 and 2010.

35. OFF-BALANCE SHEET EXPOSURE (Continued)

(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 used for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's 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 the instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

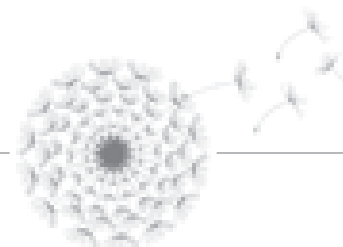
36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group and the Bank lease their investment properties (note 26) under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

As at 31 December 2011 and 2010, the Group and the Bank had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	Group		Bank	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Within one year	2,480	1,449	2,550	2,319
In the second to fifth years, inclusive	908	653	859	958
	3,388	2,102	3,409	3,277



36. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

The Group and the Bank have entered into non-cancellable operating lease arrangements with landlords, and the terms of the leases range from 1 to 5 years.

As at 31 December 2011 and 2010, the Group and the Bank had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	Group		Bank	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Within one year	77,101	51,333	45,969	27,556
In the second to fifth years, inclusive	40,896	25,702	23,075	16,364
	117,997	77,035	69,044	43,920

37. RELATED PARTY TRANSACTIONS

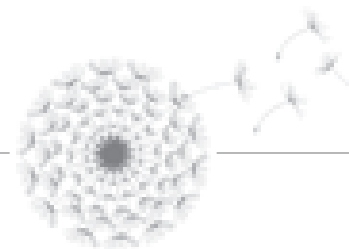
The Group had the following major transactions with related parties in the normal course of business. In addition to those disclosed elsewhere in the financial statements, the details of related party transactions, related expenses and income for the year and outstanding balances as at the year end were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

	Notes	Group	
		2011 HK\$'000	2010 HK\$'000
Related party transactions included in the consolidated income statement:			
Management fees from fellow subsidiaries	(a)	926	1,061
Management fees to the immediate holding company	(a)	1,740	1,740
Rent paid to the immediate holding company	(c)	35,631	32,776
Interest income from the ultimate holding company and fellow subsidiaries	(d) & (l)	143	1,311
Interest income from key management personnel	(e)	12	9
Interest paid to the ultimate holding company	(f)	4,162	1,574
Interest paid to the immediate holding company	(f)	-	5
Interest paid to fellow subsidiaries and an affiliated company	(f)	8,770	2,563
Interest paid to key management personnel	(f)	3	47
Commission fee income from key management personnel	(j)	15	17
Commitment fee paid to the ultimate holding company	(k)	1,762	-
Commission and service fee paid to fellow subsidiaries	(g)	394	402
Building management fee to the immediate holding company	(c)	109	109
Key management personnel compensation:			
Short-term employee benefits	(h)	4,521	4,228
Post employment benefits	(h)	222	206
Post employment benefits for employees other than key management personnel	(h)	16,856	15,375

Details of compensation for key management personnel, which are the directors of the Bank, are included in note 11 to the financial statements.

37. RELATED PARTY TRANSACTIONS (Continued)

	Notes	Group		Bank	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Related party transactions included in the consolidated statement of financial position:					
Cash and short term funds with the ultimate holding company	(d)	6,291	13,070	6,166	12,902
Deposits from the ultimate holding company	(f)	138,899	210,851	138,899	210,851
Deposits from the immediate holding company	(f)	54,316	34,875	54,316	34,875
Deposits from a fellow subsidiary and an affiliated company	(f)	1,782,142	525,825	1,782,142	525,825
Customer deposits from key management personnel	(f)	3,867	4,610	3,867	4,610
Bank loan to a fellow subsidiary	(l)	23,000	–	23,000	–
Interest receivable from a fellow subsidiary	(l)	3	–	3	–
Interest payable to the ultimate holding company	(f)	53	18	53	18
Interest payable to a fellow subsidiary and an affiliated subsidiary	(f)	664	466	664	466
Interest payable to key management personnel	(f)	2	5	2	5
Loans to key management personnel	(e)	540	634	84	58
Rental deposits from a fellow subsidiary	(b)	52	44	52	44
Rental deposits to the immediate holding company	(c)	1,243	1,243	1,100	1,100
Amounts due to the immediate holding company included in other liabilities	(i)	–	493	–	493
Amounts due from a fellow subsidiary included in other assets	(i)	5,757	7,755	–	–



37. RELATED PARTY TRANSACTIONS (Continued)

Notes:

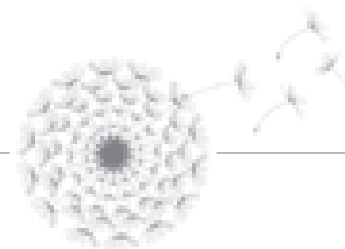
- (a) Management fees arose in respect of administrative services provided to/from the immediate holding company and fellow subsidiaries by/to the Group. They were charged based on costs incurred during the year.
- (b) Rental deposit was derived from a property leased to a fellow subsidiary as its office.
- (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. Interests were 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 a tax loan 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. During the year, interest was also paid to Public Bank (L) Ltd, a fellow subsidiary, for a loan granted to a subsidiary of the Group.
- (g) The expenses represented commission paid and service fee for the referrals of taxi financing loans from fellow subsidiaries during the year.
- (h) Short-term and 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 key management personnel of the Group for securities dealings through the Group companies.
- (k) During the year, commitment fee was paid to Public Bank in order to obtain standby facilities from Public Bank to the Bank and Public Finance.
- (l) A facility line was granted to Winton Financial Limited in the normal course of business by the Bank and interest was received/receivable from Winton Financial Limited.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Group

	2011			2010		
	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	4,574,112	4,574,112	-	6,018,609	6,018,609	-
Placements with banks and financial institutions maturing after one month but not more than twelve months	513,527	513,527	-	723,715	723,715	-
Derivative financial instruments	3,220	3,220	-	10,167	10,167	-
Loans and advances and receivables	27,370,056	27,370,056	-	26,626,606	26,626,606	-
Available-for-sale financial assets	6,804	6,804	-	6,804	6,804	-
Held-to-maturity investments	3,421,503	3,421,169	(334)	2,709,776	2,708,954	(822)
Other assets	98,054	98,054	-	269,987	269,987	-
Financial liabilities						
Deposits and balances of banks and other financial institutions at amortised cost	1,246,092	1,246,092	-	680,382	680,382	-
Derivative financial instruments	2,051	2,051	-	5,435	5,435	-
Customer deposits at amortised cost	28,400,331	28,400,331	-	29,744,973	29,744,973	-
Certificates of deposit issued at amortised cost	513,315	513,315	-	200,000	200,000	-
Unsecured bank loans at amortised cost	798,075	798,075	-	878,939	878,939	-
Other liabilities	434,873	434,873	-	420,577	420,577	-
Total unrecognised loss			(334)			(822)



38. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Bank

	2011			2010		
	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	4,503,594	4,503,594	-	5,934,469	5,934,469	-
Placements with banks and financial institutions maturing after one month but not more than twelve months	513,527	513,527	-	723,715	723,715	-
Derivative financial instruments	3,220	3,220	-	10,167	10,167	-
Loans and advances and receivables	22,835,743	22,835,743	-	22,370,133	22,370,133	-
Available-for-sale financial assets	6,804	6,804	-	6,804	6,804	-
Held-to-maturity investments	3,411,512	3,411,178	(334)	2,709,776	2,708,954	(822)
Other assets	67,960	67,960	-	177,949	177,949	-
Financial liabilities						
Deposits and balances of banks and other financial institutions at amortised cost	1,571,254	1,571,254	-	1,070,440	1,070,440	-
Derivative financial instruments	2,051	2,051	-	5,435	5,435	-
Customer deposits at amortised cost	25,131,792	25,131,792	-	26,775,672	26,775,672	-
Certificates of deposit issued at amortised cost	513,315	513,315	-	200,000	200,000	-
Unsecured bank loans at amortised cost	798,075	798,075	-	798,939	798,939	-
Other liabilities	352,875	352,875	-	296,633	296,633	-
Total unrecognised loss			(334)			(822)

(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 have not been 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 values 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 inputs are not based on observable market data.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**(b) Determination of fair value and fair value hierarchy (Continued)**

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

	2011			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets:				
Derivative financial instruments	-	3,220	-	3,220
Available-for-sale financial assets	-	-	6,804	6,804
	-	3,220	6,804	10,024
Financial liabilities:				
Derivative financial instruments	-	2,051	-	2,051
	2010			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 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

The movements in fair value measurement in Level 3 during the year are as follows:

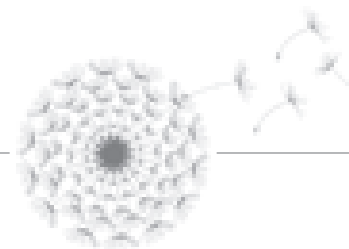
	2011 HK\$'000	2010 HK\$'000
Available-for-sale financial assets:		
At 1 January	6,804	6,804
Impairment allowance written back in relation to the Lehman Brothers Minibonds repurchased recognised in the consolidated income statement	34,157	-
Disposals	(34,157)	-
At 31 December	6,804	6,804

For the years ended 31 December 2011 and 2010, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

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

There were no financial assets and financial liabilities that offset against each other as at 31 December 2011 and 2010.

Notes to Financial Statements



39. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below shows 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 sub-section "Liquidity risk management" in note 40 to the financial statements.

Group

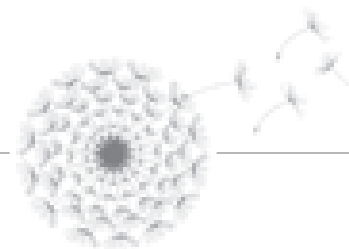
	2011							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Financial assets:								
Cash and short term placements	1,029,085	3,545,027	-	-	-	-	-	4,574,112
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	310,526	203,001	-	-	-	513,527
Loans and advances and receivables	435,497	954,269	1,807,251	3,203,209	8,004,151	13,015,774	145,514	27,565,665
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	2,597,828	811,216	9,991	2,468	-	-	3,421,503
Other assets	142	56,779	667	1,930	-	-	38,536	98,054
Foreign exchange contracts (gross)	-	783,428	80,699	42,143	-	-	-	906,270
Total financial assets	1,464,724	7,937,331	3,010,359	3,460,274	8,006,619	13,015,774	190,854	37,085,935
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	48,414	935,062	167,616	95,000	-	-	-	1,246,092
Customer deposits at amortised cost	6,135,615	10,514,240	8,982,624	2,665,694	102,158	-	-	28,400,331
Certificates of deposit issued at amortised cost	-	-	413,845	99,470	-	-	-	513,315
Unsecured bank loans at amortised cost	-	-	-	798,075	-	-	-	798,075
Other liabilities	1,727	192,331	35,489	15,693	4,902	-	184,731	434,873
Foreign exchange contracts (gross)	-	782,021	80,849	42,231	-	-	-	905,101
Total financial liabilities	6,185,756	12,423,654	9,680,423	3,716,163	107,060	-	184,731	32,297,787

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

Bank

	2011							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over	Over	Over 1 year	Repayable within an indefinite period HK\$'000	Over 5 years HK\$'000	
			1 month but not more than 3 months HK\$'000	3 months but not more than 12 months HK\$'000	more than 5 years more than 5 years HK\$'000			
Financial assets:								
Cash and short term placements	969,945	3,533,649	-	-	-	-	-	4,503,594
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	310,526	203,001	-	-	-	513,527
Loans and advances and receivables	403,939	716,757	1,434,987	1,861,750	6,224,651	12,280,435	8,858	22,931,377
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	2,597,828	811,216	-	2,468	-	-	3,411,512
Other assets	142	37,063	667	1,921	-	-	28,167	67,960
Foreign exchange contracts (gross)	-	783,428	80,699	42,143	-	-	-	906,270
Total financial assets	1,374,026	7,668,725	2,638,095	2,108,815	6,227,119	12,280,435	43,829	32,341,044
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	213,576	1,095,062	167,616	95,000	-	-	-	1,571,254
Customer deposits at amortised cost	6,315,536	9,680,647	6,972,115	2,061,831	101,663	-	-	25,131,792
Certificates of deposit issued at amortised cost	-	-	413,845	99,470	-	-	-	513,315
Unsecured bank loans at amortised cost	-	-	-	798,075	-	-	-	798,075
Other liabilities	1,673	149,413	29,864	14,078	4,902	-	152,945	352,875
Foreign exchange contracts (gross)	-	782,021	80,849	42,231	-	-	-	905,101
Total financial liabilities	6,530,785	11,707,143	7,664,289	3,110,685	106,565	-	152,945	29,272,412

Notes to Financial Statements



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

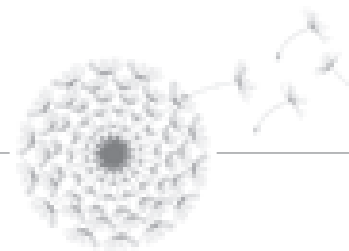
Group

	2010							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over	Over	Over 1 year	Repayable within an indefinite period HK\$'000	Over 5 years HK\$'000	
			1 month but not more than 3 months HK\$'000	3 months but not more than 12 months HK\$'000	more than 5 years more than 5 years 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 swaps	-	-	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

39. 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	Over	Over 1 year	Repayable within an indefinite period HK\$'000	Over 5 years HK\$'000	
			1 month but not more than 3 months HK\$'000	3 months but not more than 12 months HK\$'000	more than 5 years 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 swaps	-	-	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



40. 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 operations.

The main risks arising from the Group's financial instruments are market risk, credit risk, liquidity risk and operational risk. The board reviews and approves policies for managing each of these risks and they are summarised below.

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 are monitored, documented and controlled against applicable risk limits after the introduction of new products or services or implementation of new business activities. Internal auditors of the Bank also perform regular audits to ensure 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. 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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(a) Interest rate risk (Continued)

Interest rate risk exposures in banking book:

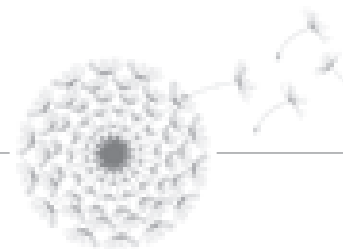
The relevant interest rate risk arises from repricing risk and basis risk.

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\$3,256 million (2010: HK\$3,384 million) up to 12 months in 2011, profit before tax in 2011 would increase/decrease by HK\$86 million or 1.71% of equity (2010: HK\$76 million or 1.55% of equity). Profit before tax would increase/decrease by HK\$86 million or 1.70% of equity (2010: HK\$78 million or 1.61% of equity) for the next 12 months after the reporting date.

Based on the positive net interest gap of HK\$5,049 million (2010: HK\$5,091 million) up to five years, the economic value would increase by HK\$49 million (2010: HK\$54 million).

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 assumption, profit before tax would decrease by HK\$224 million or 4.43% of equity (2010: HK\$269 million or 5.52% of equity) for the year ended 31 December 2011. Profit before tax would decrease by HK\$235 million or 4.65% of equity (2010: HK\$237 million or 4.86% 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\$314 million or 6.21% of equity (2010: HK\$387 million or 7.95% of equity) for the year ended 31 December 2011. Profit before tax would decrease by HK\$315 million or 6.22% of equity (2010: HK\$346 million or 7.12% of equity) for the next 12 months after the reporting date.



40. 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 2011 and 2010 are detailed as follows:

Group

	2011					Over 5 years HK\$'000	Non- interest- bearing HK\$'000	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			
Assets:								
Fixed rate financial assets								
Cash and short term placements	3,545,026	-	-	-	-	-	1,029,086	4,574,112
Placements with banks and financial institutions maturing after one month but not more than twelve months	513,527	-	-	-	-	-	-	513,527
Loans and advances and receivables	2,253,947	1,032,945	584,687	238,523	36,392	6,833	132,406	4,285,733
Derivative financial instruments	-	-	-	-	-	-	3,220	3,220
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	3,419,035	2,468	-	-	-	-	-	3,421,503
	9,731,535	1,035,413	584,687	238,523	36,392	6,833	1,171,516	12,804,899
Floating rate financial assets								
Loans and advances and receivables	23,185,648	-	-	-	-	-	94,284	23,279,932
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	1,197,678	-	-	-	-	-	48,414	1,246,092
Customer deposits at amortised cost	22,368,157	91,677	7,343	204	2,934	-	-	22,470,315
Certificates of deposit issued at amortised cost	513,315	-	-	-	-	-	-	513,315
Derivative financial instruments	-	-	-	-	-	-	2,051	2,051
	24,079,150	91,677	7,343	204	2,934	-	50,465	24,231,773
Floating rate financial liabilities								
Customer deposits at amortised cost	4,783,568	-	-	-	-	-	1,146,448	5,930,016
Unsecured bank loans at amortised cost	798,075	-	-	-	-	-	-	798,075
	5,581,643	-	-	-	-	-	1,146,448	6,728,091
Total interest sensitivity gap	3,256,390	943,736	577,344	238,319	33,458	6,833	68,887	5,124,967

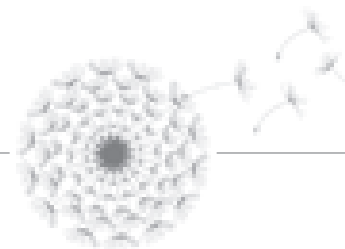
40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(a) Interest rate risk (Continued)

Bank

	2011							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	3,533,651	-	-	-	-	-	969,943	4,503,594
Placements with banks and financial institutions maturing after one month but not more than twelve months	513,527	-	-	-	-	-	-	513,527
Loans and advances and receivables	312,036	157,793	87,354	38,914	7,422	369	-	603,888
Derivative financial instruments	-	-	-	-	-	-	3,220	3,220
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	3,409,044	2,468	-	-	-	-	-	3,411,512
	7,768,258	160,261	87,354	38,914	7,422	369	979,967	9,042,545
Floating rate financial assets								
Loans and advances and receivables	22,233,205	-	-	-	-	-	94,284	22,327,489
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	1,357,678	-	-	-	-	-	213,576	1,571,254
Customer deposits at amortised cost	18,924,687	91,182	7,343	204	2,934	-	-	19,026,350
Certificates of deposit issued at amortised cost	513,315	-	-	-	-	-	-	513,315
Derivative financial instruments	-	-	-	-	-	-	2,051	2,051
	20,795,680	91,182	7,343	204	2,934	-	215,627	21,112,970
Floating rate financial liabilities								
Customer deposits at amortised cost	4,783,709	-	-	-	-	-	1,321,733	6,105,442
Unsecured bank loans at amortised cost	798,075	-	-	-	-	-	-	798,075
	5,581,784	-	-	-	-	-	1,321,733	6,903,517
Total interest sensitivity gap	3,623,999	69,079	80,011	38,710	4,488	369	(463,109)	3,353,547



40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(a) Interest rate risk (Continued)

Group	2010					Over 5 years HK\$'000	Non- interest- bearing HK\$'000	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			
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 swaps (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
Less:								
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 swaps (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

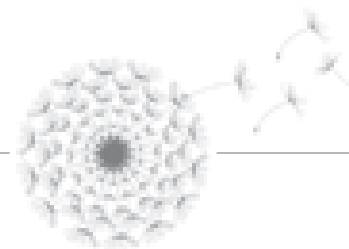
40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(a) Interest rate risk (Continued)

Bank

	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	5,325,296	-	-	-	-	-	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 swaps (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 swaps (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



40. 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	
	2011 Rate %	2010 Rate %	2011 Rate %	2010 Rate %
Assets				
Cash and short term placements	1.00	0.55	1.00	0.55
Placements with banks and financial institutions	4.74	1.25	4.74	1.25
Loans and advances and receivables (including trade bills)	5.39	5.23	2.45	2.13
Held-to-maturity investments	1.66	1.99	1.66	1.99
Liabilities				
Deposits and balances of banks and other financial institutions at amortised cost	0.79	0.48	0.74	0.36
Customer deposits at amortised cost	1.44	1.01	1.33	0.89
Certificates of deposit issued at amortised cost	1.06	0.73	1.06	0.73
Unsecured bank loans at amortised cost	1.38	1.15	1.38	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 directors.

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

At 31 December 2011, if RMB had strengthened or weakened by 100 basis points against HKD with all other variables held constant, the Group's equity would have increased or decreased by HK\$6 million (2010: HK\$6 million) mainly as a result of foreign exchange impact arising from net structural position of RMB denominated operating capital.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(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 did 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 was exposed was not material. Accordingly, no quantitative market risk disclosures for price risk have been made.

Credit risk management

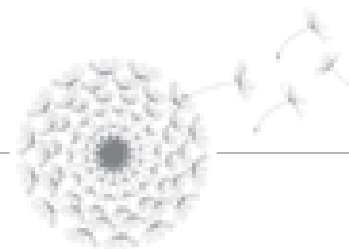
Credit risk is the risk that a customer or counterparty in a transaction may default. It arises from the lending, trade finance, treasury and other activities undertaken by the Group.

The Group has a credit risk management process to measure, monitor and control credit risk. Its Credit Policy 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 are handled by an independent work-out team.

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

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

Credit Committees of the Group monitor 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. 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.



40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management (Continued)

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

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

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

The “Neither past due nor impaired loans and advances and receivables” are shown in note 17 to the financial statements.

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

Maximum credit exposures for off-balance sheet items without taking into account the fair value of collateral are as follows:

	Group		Bank	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Credit related contingent liabilities	356,588	365,331	356,588	365,331
Loan commitments and other credit related commitments	3,189,102	4,427,072	3,078,989	4,336,939

Liquidity risk management

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

The respective Assets and Liabilities Management Committees of the Bank and Public Finance monitor the liquidity position as part of the ongoing management of assets and liabilities, and set up trigger limits to monitor liquidity risk. They also closely monitor the liquidity of the subsidiaries on a periodic basis to ensure that the liquidity structure of the subsidiaries’ assets, liabilities and commitments can meet their funding needs, and that internal liquidity trigger limits are complied with. Standby facilities are maintained to provide liquidity to meet unexpected and material cash outflows in the ordinary course of business.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued) Liquidity risk management (Continued)

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

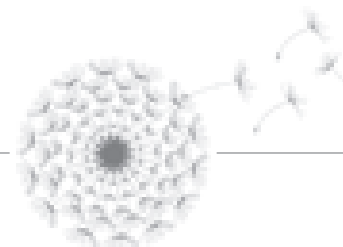
Group

	2011							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	-	5,233	-	-	-	-	-	5,233
Forward forward deposits placed	-	23,010	43,190	-	-	-	-	66,200
Foreign currency contracts (gross)	-	782,021	80,849	42,231	-	-	-	905,101
Credit related contingent liabilities	114,619	14,081	59,817	168,067	4	-	-	356,588
Loan commitments and other credit related commitments	2,527,659	491,434	35,615	-	134,394	-	-	3,189,102
Customer deposits at amortised cost	6,136,844	10,537,299	9,028,281	2,699,761	112,255	-	-	28,514,440
Deposits and balances of banks and other financial institutions at amortised cost	48,414	936,579	167,997	95,426	-	-	-	1,248,416
Certificates of deposit issued at amortised cost	-	-	417,184	100,000	-	-	-	517,184
Unsecured bank loans at amortised cost	-	-	-	806,383	-	-	-	806,383
Other liabilities	-	170,058	-	-	-	-	184,731	354,789
	8,827,536	12,959,715	9,832,933	3,911,868	246,653	-	184,731	35,963,436

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

Notes to Financial Statements



40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued) Liquidity risk management (Continued)

Bank

	Repayable on demand HK\$'000	Up to 1 month HK\$'000	2011			Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	Total 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			
Forward assets purchase	-	5,233	-	-	-	-	-	5,233
Forward forward deposits placed	-	23,010	43,190	-	-	-	-	66,200
Foreign currency contracts (gross)	-	782,021	80,849	42,231	-	-	-	905,101
Credit related contingent liabilities	114,619	14,081	59,817	168,067	4	-	-	356,588
Loan commitments and other credit related commitments	2,527,659	381,321	35,615	-	134,394	-	-	3,078,989
Customer deposits at amortised cost	6,316,765	9,703,699	7,017,771	2,095,896	111,760	-	-	25,245,891
Deposits and balances of banks and other financial institutions at amortised cost	213,576	1,096,590	167,997	95,426	-	-	-	1,573,589
Certificates of deposit issued at amortised cost	-	-	417,184	100,000	-	-	-	517,184
Unsecured bank loans at amortised cost	-	-	-	806,383	-	-	-	806,383
Other liabilities	-	132,023	-	-	-	-	152,945	284,968
	9,172,619	12,137,978	7,822,423	3,308,003	246,158	-	152,945	32,840,126

Bank

	Repayable on demand HK\$'000	Up to 1 month HK\$'000	2010			Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	Total 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			
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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Operational risk management

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

The Group has operational risk management function in place to identify, measure, monitor and control operational risk. Its Operational Risk Management Policy Manual defines the 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. 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 controlling operational risk.

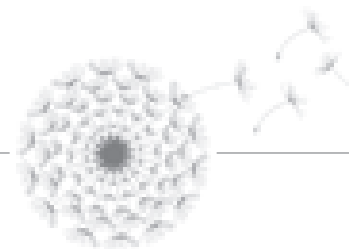
Capital management

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

The 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 various business activities of the Bank depending on the risks taken by each business division and in accordance with the requirements of relevant regulatory bodies, taking into account current and future activities within a time frame of three years.

Capital adequacy and core capital ratios

	Group		Bank	
	2011	2010	2011	2010
Capital adequacy ratio	19.4%	18.8%	16.1%	15.2%
Core capital ratio	18.4%	17.7%	16.1%	15.2%



40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital disclosures

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

2011

	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	1,554,395	1,567,043
Income statement	144,981	170,629
Deduct:		
Goodwill	(242,342)	–
Deferred tax assets	(12,873)	(12,775)
Core capital before deductions	4,298,206	4,578,942
Less: Deductions from shareholdings in subsidiaries	(33,054)	(877,999)
Other deductions	(16,653)	(675,583)
Total core capital after deductions	4,248,499	3,025,360
Supplementary capital:		
Regulatory reserve	260,808	217,721
Collective impairment allowances	29,796	18,000
Supplementary capital before deductions	290,604	235,721
Less: Deductions from shareholdings in subsidiaries	(33,054)	(219,068)
Other deductions	(16,653)	(16,653)
Total supplementary capital after deductions	240,897	–
Capital base	4,489,396	3,025,360

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

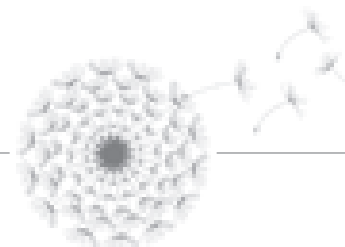
Capital disclosures (Continued)

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

Capital adequacy ratio at 31 December 2011 and 2010 were compiled on both solo and consolidated basis in accordance with the “Banking (Capital) Rules” and 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.

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 aforesaid subsidiaries and other exposures.



40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued) Capital disclosures (Continued)

Group

Class of exposures	2011					
	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	2,102,494	-	2,102,494	-	-	-
Public sector entity	-	222,914	222,914	-	44,583	44,583
Bank	6,235,613	5,682	6,241,295	1,404,864	1,136	1,406,000
Securities firm	-	9,647	9,647	-	4,824	4,824
Corporate	49,879	6,095,610	6,145,489	49,879	6,095,610	6,145,489
Cash items	-	1,060,837	1,060,837	-	161,485	161,485
Regulatory retail	-	8,559,587	8,559,587	-	6,419,691	6,419,691
Residential mortgage	-	10,529,716	10,529,716	-	4,614,978	4,614,978
Past due exposures	-	122,717	122,717	-	183,073	183,073
Collective investment scheme exposures	-	-	-	-	-	-
Other non-past due exposures	-	1,215,118	1,215,118	-	1,215,118	1,215,118
Off-balance sheet:						
OTC derivative transactions						
- Foreign exchange contracts	-	837,689	837,689	-	92	92
- Others	-	-	-	-	-	-
Other off-balance sheet items	-	3,617,123	3,617,123	-	134,746	134,746
	8,387,986	32,276,640	40,664,626	1,454,743	18,875,336	20,330,079

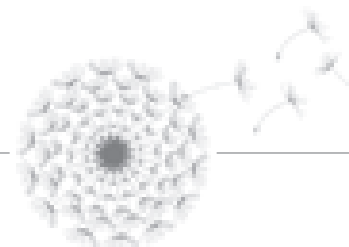
Bank

Class of exposures	2011					
	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	2,092,503	-	2,092,503	-	-	-
Public sector entity	-	222,914	222,914	-	44,583	44,583
Bank	6,186,545	5,682	6,192,227	1,395,050	1,136	1,396,186
Securities firm	-	9,647	9,647	-	4,824	4,824
Corporate	49,879	6,067,082	6,116,961	49,879	6,067,082	6,116,961
Cash items	-	1,042,583	1,042,583	-	161,485	161,485
Regulatory retail	-	4,570,792	4,570,792	-	3,428,094	3,428,094
Residential mortgage	-	10,045,823	10,045,823	-	4,445,615	4,445,615
Past due exposures	-	78,491	78,491	-	116,734	116,734
Collective investment scheme exposures	-	-	-	-	-	-
Other non-past due exposures	-	1,140,859	1,140,859	-	1,140,859	1,140,859
Off-balance sheet:						
OTC derivative transactions						
- Foreign exchange contracts	-	837,689	837,689	-	92	92
- Others	-	-	-	-	-	-
Other off-balance sheet items	-	3,507,010	3,507,010	-	134,746	134,746
	8,328,927	27,528,572	35,857,499	1,444,929	15,545,250	16,990,179

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital disclosures (Continued)

Group	2010					
	Class of exposures	Exposures*		Risk-weighted amounts		
		Rated# HK\$'000	Unrated HK\$'000	Total HK\$'000	Rated HK\$'000	Unrated 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



40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital disclosures (Continued)

Bank

Class of exposures	2010					
	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	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

The Group did not enter into OTC derivative transactions other than foreign exchange contracts and interest rate swaps and futures with counterparties during 2011 and 2010. The credit exposures attributed to such transactions were 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 External Credit Assessment Institutions ("ECAI"), 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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital disclosures (Continued)

2011

	Group		Bank	
	Risk-weighted exposures	Capital requirements/charge	Risk-weighted exposures	Capital requirements/charge
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Credit risk	20,330,079	1,626,406	16,990,179	1,359,214
Market risk – foreign exchange exposures	561,838	44,947	561,838	44,947
Operational risk	2,356,388	188,511	1,305,688	104,455
Deductions	(147,688)	–	(107,584)	–
	23,100,617	1,859,864	18,750,121	1,508,616

2010

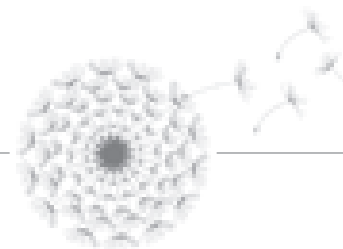
	Group		Bank	
	Risk-weighted exposures	Capital requirements/charge	Risk-weighted exposures	Capital requirements/charge
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Credit risk	20,976,162	1,678,093	17,794,060	1,423,525
Market risk – foreign exchange exposures	587,600	47,008	587,600	47,008
Operational risk	2,172,800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

The Group and the Bank have adopted the 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 2011 and 2010.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 January 2012.

Supplementary Financial Information (Unaudited)



ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

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

Group

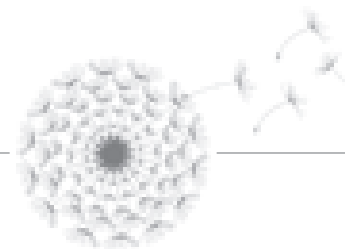
	31 December 2011								
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	New impairment allowances charged to income statement HK\$'000	Amount of impaired loans and advances written off HK\$'000	Collateral HK\$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK\$'000	Loans and advances overdue for more than three months HK\$'000
Loans and advances for use in Hong Kong									
Manufacturing	556,884	332	281	196	970	486,341	87.3	281	281
Building and construction, property development and investment									
Property development	491,638	281	-	-	-	42,890	8.7	-	-
Property investment	6,174,634	3,526	-	-	-	5,604,306	90.8	-	-
Civil engineering works	112,686	62	-	-	-	23,028	20.4	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	1,788	1	-	-	-	1,737	97.1	-	-
Information technology	29,973	17	-	-	-	1,953	6.5	-	-
Wholesale and retail trade	104,614	69	-	84	89	91,146	87.1	-	-
Transport and transport equipment	4,070,763	2,059	538	314	1,931	4,033,749	99.1	572	365
Hotels, boarding houses and catering	335,292	192	-	-	-	36,002	10.7	-	-
Financial concerns	695,015	397	-	199	-	647,012	93.1	-	-
Stockbrokers									
Margin lending	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	32,781	19	-	-	-	2,233	6.8	-	-
Others	31,898	18	-	-	-	31,898	100.0	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme									
	149,679	85	-	-	-	149,679	100.0	290	-
Loans for the purchase of other residential properties									
	7,909,549	4,267	-	-	-	7,909,549	100.0	2,208	2,208
Loans for credit card advances	16,764	10	41	455	428	-	-	41	41
Loans for other business purposes	1,607	1	-	1	-	841	52.3	-	-
Loans for other private purposes	3,911,442	11,912	89,436	450,870	452,553	178,454	4.6	133,662	99,309
Trade finance	480,696	275	-	393	12,838	368,078	76.6	-	-
Other loans and advances	96,732	55	-	-	-	79,953	82.7	-	-
Sub-total	25,204,435	23,578	90,296	452,512	468,809	19,688,849	78.1	137,054	102,204
Loans and advances for use outside Hong Kong	2,261,563	6,187	73,575	30,689	15,348	1,315,658	58.2	138,641	138,641
Total loans and advances (excluding trade bills and other receivables)	27,465,998	29,765	163,871	483,201	484,157	21,004,507	76.5	275,695	240,845

ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

Bank

	31 December 2011								
	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 and advances for use in Hong Kong									
Manufacturing	539,594	308	281	166	956	485,877	90.0	281	281
Building and construction, property development and investment									
Property development	491,591	281	-	-	-	42,890	8.7	-	-
Property investment	6,172,421	3,526	-	-	-	5,602,093	90.8	-	-
Civil engineering works	109,357	62	-	-	-	22,601	20.7	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	1,737	1	-	-	-	1,737	100.0	-	-
Information technology	29,778	17	-	-	-	1,953	6.6	-	-
Wholesale and retail trade	89,145	51	-	-	-	86,685	97.2	-	-
Transport and transport equipment	3,603,925	2,059	538	314	1,931	3,567,172	99.0	572	365
Hotels, boarding houses and catering	335,292	192	-	-	-	36,002	10.7	-	-
Financial concerns	695,015	397	-	199	-	647,012	93.1	-	-
Stockbrokers									
Margin lending	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	32,781	19	-	-	-	2,233	6.8	-	-
Others	31,898	18	-	-	-	31,898	100.0	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme									
	149,679	85	-	-	-	149,679	100.0	290	-
Loans for the purchase of other residential properties									
	7,470,012	4,267	-	-	-	7,470,012	100.0	2,208	2,208
Loans for credit card advances									
	16,764	10	41	455	428	-	-	41	41
Loans for other business purposes									
	1,607	1	-	1	-	841	52.3	-	-
Loans for other private purposes									
	275,800	158	1,257	1,864	969	140,045	50.8	1,257	386
Trade finance									
	480,696	275	-	393	12,838	368,078	76.6	-	-
Other loans and advances									
	96,732	55	-	-	-	79,953	82.7	-	-
Sub-total	20,623,824	11,782	2,117	3,392	17,122	18,736,761	90.9	4,649	3,281
Loans and advances for use outside Hong Kong									
	2,261,563	6,187	73,575	30,689	15,348	1,315,658	58.2	138,641	138,641
Total loans and advances (excluding trade bills and other receivables)									
	22,885,387	17,969	75,692	34,081	32,470	20,052,419	87.6	143,290	141,922

Supplementary Financial Information (Unaudited)



ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

Group

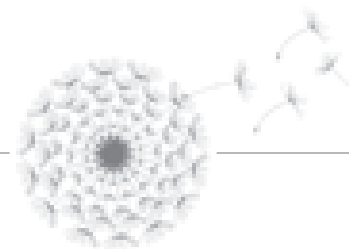
	31 December 2010								
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	New impairment allowances charged to income statement HK\$'000	Amount of impaired loans and advances written off HK\$'000	Collateral HK\$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK\$'000	Loans and advances overdue for more than three months HK\$'000
Loans and advances 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 the 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 and other receivables)	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 and advances 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 the 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 and other receivables)	22,402,423	19,791	76,712	47,093	74,611	18,583,096	83.0	180,243	177,725

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



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 2011				
Mainland China entities	1,315	28	1,343	74
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	573	46	619	-
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland China exposures	-	-	-	-
	1,888	74	1,962	74

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

CROSS-BORDER CLAIMS

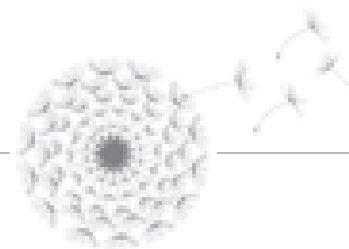
The following table illustrates the geographical disclosure of the Group and the Bank's cross-border claims by type of counterparties on which the ultimate risk lies, and is shown according to the location of the counterparties after taking into account the transfer of risk. An individual country or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

As at 31 December 2011

	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:				
China	3,140	120	475	3,735
Malaysia	1,163	120	231	1,514
Japan	749	–	103	852
Japan	666	–	–	666
2. Western Europe	2,538	–	33	2,571
Bank				
1. Asia Pacific excluding				
Hong Kong, of which:				
China	3,129	120	475	3,724
Malaysia	1,163	120	231	1,514
Japan	748	–	103	851
Japan	666	–	–	666
2. Western Europe	2,538	–	33	2,571

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:				
China	3,605	53	397	4,055
Japan	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:				
China	3,594	53	397	4,044
Japan	940	53	83	1,076
Japan	793	–	26	819
2. Western Europe, of which:	3,591	–	89	3,680
France	1,210	–	–	1,210



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 follows:

Group and Bank

	Spot assets HK\$'million	Spot liabilities HK\$'million	Forward purchases HK\$'million	Forward sales HK\$'million	Net short position HK\$'million	Structural assets HK\$'million
As at 31 December 2011						
RMB	907	963	-	-	(56)	617
Others	5,702	5,656	597	655	(12)	-
	6,609	6,619	597	655	(68)	617

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						
USD	2,913	3,033	250	119	11	-
RMB	222	225	-	-	(3)	590
Others	2,067	2,106	290	257	(6)	-
	5,202	5,364	540	376	2	590

LIQUIDITY RATIOS

	2011	2010
Average liquidity ratios for the year:		
Group	41.3%	47.5%
Bank	39.4%	43.5%

The average liquidity ratios are computed on both consolidated and solo bases 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 year.

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.

DISCLOSURE OF THE REMUNERATION SYSTEM

Remuneration Committee

The Bank has established its Remuneration Committee with written terms of reference with effect from 1 January 2011 in compliance with the requirements of the Supervisory Policy Manual on “Guideline on a Sound Remuneration System” (the “Guideline”) issued by the HKMA. There are five members in the Remuneration Committee and the majority of the members are Independent Non-executive Directors. The Remuneration Committee is chaired by Tan Sri Dato’ Sri Dr. Teh Hong Piow. The other members are Tan Sri Datuk Seri Utama Thong Yaw Hong, Tan Sri Dato’ Sri Tay Ah Lek, Mr. Lee Chin Guan and Mr. Quah Poh Keat.

The Remuneration Committee shall meet at least once a year to review and make recommendations to the board of directors (the “Board”) of the Bank on the overall remuneration policy, specific remuneration packages and compensation arrangement relating to the termination of their office or appointment of directors, Chief Executive, senior management and key personnel, and for the formulation of the remuneration policy applicable to all employees of the Bank and the Group.

Two meetings were held in 2011. The attendance of each member in 2011 is set out as follows:

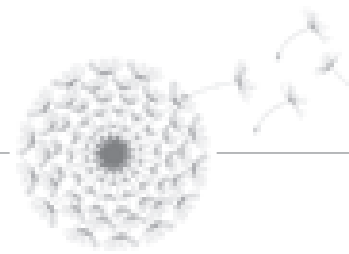
Name of director	Number of meetings attended in 2011	Attendance rate
Tan Sri Dato’ Sri Dr. Teh Hong Piow, <i>Chairman</i>	2/2	100%
Tan Sri Datuk Seri Utama Thong Yaw Hong	2/2	100%
Tan Sri Dato’ Sri Tay Ah Lek	2/2	100%
Mr. Lee Chin Guan	2/2	100%
Mr. Quah Poh Keat	2/2	100%

At the meetings held during the year, movement of senior officials, 2011 annual salary review, allocation of discretionary bonus in compliance with the guidelines of the HKMA, the opening of new branches in the first quarter of 2011 and annual review of the remuneration system were reviewed and noted.

The remuneration of the directors, Chief Executive, senior management officers and key personnel is determined by reference to factors including the level of workload, responsibilities and commitments, performance and remuneration packages of the Group. No individual director or any of his associate is involved in deciding his own remuneration.

The scales of director’s fees of the Bank for 2011 are outlined as follows:

	Range
Chairman/Co-chairman	HK\$60,000 – HK\$102,500
Other directors	HK\$25,000 – HK\$92,500



DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

Human Resources Committee

The Human Resources Committee of the Bank was formed with written terms of reference to assist the Board of the Bank in formulating and implementing policies relating to all human resources matters and to make decisions within its terms of reference to ensure the smooth implementation of human resources policies. Currently, there are five members in the Human Resources Committee. The Committee is chaired by the Chief Executive. The other members are the two Alternate Chief Executives, Senior Deputy General Manager and Head of Human Resources Department.

The Human Resources Committee meets 4 times a year or as and when needed. 5 meetings were held in 2011 to discuss on the following issues:

- 2011 annual salary review
- Minimum Wage Ordinance effected on 1 May 2011
- Enhancement of risk management on an account executive of Securities and Wealth Product Management Department
- New Competency and Ethical Behaviour Policy

Design and structure of the remuneration processes

The Board of the Bank oversees the formulation, maintenance and implementation of the Remuneration Policy.

The Remuneration Committee of the Bank approves the remuneration packages of key senior management personnel of the Group (excluding Public Finance and its subsidiaries which had established their own Remuneration Committee and adopted their own Remuneration Policy) in accordance with the authorities and responsibilities as stipulated in its terms of reference for endorsement by the Board of the Bank.

The Remuneration Committee of the Bank also works closely with the Human Resources Committee, Audit Committee and other dedicated committees and departments to (i) review if there are any material non-compliance issues in relation to internal policy and statutory requirements and make adjustments to payments of remuneration whenever necessary, and (ii) decide upon the appraisal system which fairly measures the performance of each key personnel, and make changes to the system when necessary to meet the changing needs of the Bank.

Proposal of a remuneration review is submitted to the Chairman of the Board of the Bank by the Remuneration Committee for consideration each year.

Regular compliance monitoring is imposed to review the management and operation of the remuneration system.

Human Resources Department continues to take initiatives on all human resources matters while Human Resources Committee continues to function in accordance with its terms of reference.

Discussions and recommendations related to employees at managerial level made in the meetings were submitted to the Human Resources Committee of Public Bank Berhad, the ultimate holding company of the Bank, and where appropriate, to the Remuneration Committee of the Bank for endorsement while discussions and decisions related to non-managerial employees made in the meetings were noted in the Board Executive Committee of the Bank.

DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

The Remuneration of the Bank Group

The Bank adopted the Remuneration Policy in compliance with the Guideline in December 2010. The Remuneration Policy covers the Bank and its subsidiaries subject to the HKMA's consolidated supervision except Public Finance, Public Financial Limited and Public Securities Limited (the "Bank Group") which adopt their own remuneration policy.

The Bank's Remuneration Policy encourages employee behavior that supports the Bank's risk tolerance, risk management framework and long-term financial soundness. The policy is established and implemented in line with the objectives, business strategies and long-term goals of the Bank and formulated in a way that will not encourage excessive risks taken by employees but allows the Bank to attract and retain employees with relevant skills, knowledge and expertise to discharge their specific functions.

Basically, the remuneration package consists of fixed and variable remuneration. Fixed remuneration refers to basic salary, the year end double pay, and other fixed income while variable remuneration refers to discretionary bonus, sales commission and other variable income. The remuneration packages are determined by taking into consideration the evaluation of the job's responsibilities and contribution, the market pay levels for benchmark positions, and employee's performance. The level of remuneration and the proportion of variable remuneration to fixed remuneration of senior management and key personnel are linked to their level of responsibility undertaken and contribution to business performance and enhancements of efficiency and effectiveness of operations.

The Bank uses a comprehensive performance measurement framework that incorporates both financial and non-financial performance in determining the size and allocation of variable remuneration. The financial metrics link the variable remuneration to the profits, revenue and other performance measures of the Bank as a whole, and the contribution of business units or departments and an individual employee to the Bank as well. The applicable and material risks associated with the activities of employees, the cost and quantity of capital required to support the risks taken, and the cost and quantity of liquidity risk in the conduct of business are also taken into consideration. The non-financial metrics capture the performance on qualitative aspects such as the compliance with risk management policies, adherence to legal, regulatory and ethical standards; customer satisfaction; and effectiveness and efficiency of supporting operations.

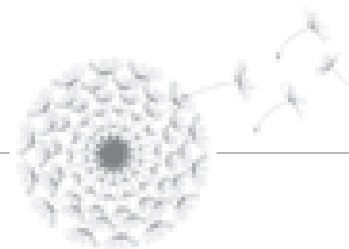
Annual review of remuneration system

An annual review of the remuneration system and its operation of the Bank Group was conducted by the Remuneration Committee at the end of 2011. The review concludes that the remuneration system is to a large extent consistent with the principles set out in the Guideline except for some suggested amendments to the salary deferment as detailed below.

When the amount of variable remuneration payout exceeds a predetermined percentage of the annual fixed remuneration of the employee, a deferment period of 3 years will be imposed in order to align the incentive awards to be granted to an individual employee with the long-term value creation and the time horizons of risk. The deferred remuneration will be vested gradually over the 3-year deferment period and no faster than on a pro-rata basis.

Subject to the decision of the Remuneration Committee in accordance with the internal guidelines, the deferred remuneration will be forfeited and/or clawed back when it is later established that the data on which the performance measurement for a particular year was based is subsequently proven to have been manifestly misstated; or it is later established that the employee concerned has committed fraud or other malfeasance, or violated any legislation, code or internal control policies of the Bank Group; or there has been a significant downward restatement of the financial performance of the Bank Group; or the employment of the employee is terminated.

The award of variable remuneration to the senior management, key personnel and risk taking employees is subject to a deferral mechanism which will be reviewed by the Remuneration Committee at least annually and subject to change when necessary.



DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

Remuneration of senior management and key personnel

The aggregate quantitative information on remuneration for the Bank's senior management (including the two Executive Directors who also hold the positions of Chief Executive and Alternative Chief Executive respectively) and key personnel is set out below.

- (i) The amount of remuneration for the financial year 2011, split into fixed and variable remuneration, and number of beneficiaries were:

Remuneration for senior management*:

Fixed remuneration		Variable remuneration		No. of beneficiaries
Non-deferred	Deferred	Non-deferred	deferred	
HK\$7,712,745	Nil	HK\$2,490,651	Nil	6

* Senior management comprising Chief Executive, Alternate Chief Executives, Senior Deputy General Manager, Financial Controller and Head of Treasury

Remuneration for key personnel#:

Fixed remuneration		Variable remuneration		No. of beneficiaries
Non-deferred	deferred	Non-deferred	deferred	
HK\$6,483,472	Nil	HK\$1,510,343	Nil	8

Key personnel comprising individual employees whose duties or activities in the course of employment involve the assumption of material risk or the taking on material exposures on behalf of the Bank Group and the key personnel within risk control functions

- (ii) The amount of variable remuneration for the financial year 2011 was paid in cash. No variable remuneration in shares or share-linked instruments was granted.
- (iii) There was no deferred remuneration awarded, paid out and reduced through performance adjustments during the financial year 2011.
- (iv) No senior management or key personnel had been awarded with new sign-on or severance payments during the financial year 2011.

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 Board 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, review of the Bank’s financial statements before submission to the directors and review of the Bank’s internal audit programme, internal controls and compliance systems. Audit Committee comprises Non-executive Directors appointed by the Board, and the majority of them are Independent Non-executive Directors.

4. Credit Committee

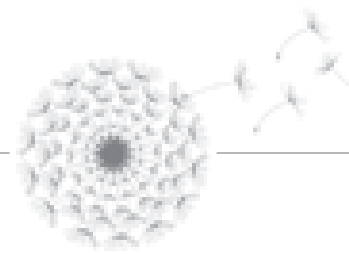
Credit Committee is responsible for making decisions on applications for all types of credit facilities within its limits set out in the Credit Policy and in particular, monitoring the lending portfolio for managing the overall credit risk of the Bank. It comprises the Chief Executive, Alternate Chief 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 the Board Executive Committee or Board. 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 the 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 Executives, Financial Controller and Risk Manager.



CORPORATE GOVERNANCE (Continued)

7. Operational Risk Management Committee

Operational Risk Management Committee is responsible for the implementation of the operational risk management framework approved by the Board, 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.

8. Information Technology Steering Committee

Information Technology 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 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 package 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 and Counter Terrorist Financing (“AML”) Committee

AML 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 trafficking 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 anti-money laundering and counter terrorist financing guidelines and overseeing the Bank’s implementation of the “Guidelines on Prevention of Money Laundering and Anti-terrorist Financing” in meeting the anti-money laundering 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.

12. Remuneration Committee

Remuneration Committee is responsible for reviewing and recommending to the Board the overall remuneration policy of Directors, Chief Executive, senior management and key personnel, and formulating the remuneration policy applicable to all employees of the Bank. It comprises Non-executive Directors appointed by the Board, and the majority of them are Independent Non-executive Directors.