

PUBLIC BANK (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)
(Website: www.publicbank.com.hk)

INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

The Board of Directors of Public Bank (Hong Kong) Limited (the “Bank”) is pleased to announce the unaudited condensed consolidated results of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2011 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30 June	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Interest income	6	757,552	728,728
Interest expense	6	(155,090)	(92,616)
NET INTEREST INCOME		602,462	636,112
Other operating income	7	145,355	123,234
OPERATING INCOME		747,817	759,346
Operating expenses	8	(356,686)	(342,391)
Changes in fair value of investment properties		236	-
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		391,367	416,955
Impairment allowance written back in relation to the Lehman Brothers Minibonds repurchased		34,157	-
		425,524	416,955
Impairment allowances for loans and advances and receivables	9	(176,880)	(149,238)
PROFIT BEFORE TAX		248,644	267,717
Tax	10	(43,774)	(43,689)
PROFIT FOR THE PERIOD		204,870	224,028
ATTRIBUTABLE TO:			
Owners of the Bank		204,870	224,028

Details of dividends paid/payable are disclosed in note 11 to the financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	204,870	224,028
OTHER COMPREHENSIVE INCOME		
FOR THE PERIOD:		
Exchange gain on translating foreign operations	Note	
	12,300	2,400
TOTAL COMPREHENSIVE INCOME		
FOR THE PERIOD	217,170	226,428
ATTRIBUTABLE TO:		
Owners of the Bank	217,170	226,428

Note:

There were no tax effects arising from other comprehensive income for the six months ended 30 June 2011 and 2010.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
	Notes		
ASSETS			
Cash and short term placements	12	4,948,313	6,018,609
Placements with banks and financial institutions maturing after one month but not more than twelve months	13	332,536	723,715
Derivative financial instruments	28	1,819	10,167
Loans and advances and receivables	14	27,712,299	26,626,606
Available-for-sale financial assets	15	6,804	6,804
Held-to-maturity investments	16	4,212,071	2,709,776
Interests in a jointly-controlled entity		1,513	1,513
Deferred tax assets		14,820	9,633
Tax recoverable		316	901
Intangible assets	18	718	718
Property and equipment	19	70,524	68,609
Land held under finance leases	20	109,625	111,256
Investment properties	21	47,574	47,338
Goodwill		242,342	242,342
Other assets	17	427,949	269,987
TOTAL ASSETS		38,129,223	36,847,974
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		1,846,807	680,382
Derivative financial instruments	28	2,360	5,435
Customer deposits at amortised cost	22	29,234,078	29,744,973
Certificates of deposit issued at amortised cost		512,938	200,000
Unsecured bank loans at amortised cost	23	829,733	878,939
Current tax payable		72,416	40,909
Deferred tax liabilities		8,205	7,256
Other liabilities	24	642,125	420,577
TOTAL LIABILITIES		33,148,662	31,978,471
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK			
Issued capital		1,481,600	1,481,600
Reserves	25	3,498,961	3,387,903
TOTAL EQUITY		4,980,561	4,869,503
TOTAL EQUITY AND LIABILITIES		38,129,223	36,847,974

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
TOTAL EQUITY		
Balance at the beginning of the period	4,869,503	4,596,370
Profit for the period	204,870	224,028
Other comprehensive income	12,300	2,400
Total comprehensive income for the period	217,170	226,428
Dividends paid in respect of previous year	(106,112)	(87,340)
Balance at the end of the period	4,980,561	4,735,458

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
NET CASH FLOWS FROM:		
OPERATING ACTIVITIES	657,781	(244,416)
INVESTING ACTIVITIES	(12,495)	(5,803)
FINANCING ACTIVITIES	(155,318)	(87,340)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	489,968	(337,559)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	8,540,588	8,939,856
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	9,030,556	8,602,297
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and short term placements repayable on demand	679,693	896,784
Money at call and short notice with original maturity within three months	4,268,620	4,304,788
Placements with banks and financial institutions with original maturity within three months	70,000	-
Held-to-maturity investments with original maturity within three months	4,012,243	3,400,725
	9,030,556	8,602,297

NOTES TO FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared in accordance with the applicable 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 (“HKICPA”), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. The preparation of consolidated interim financial statements has also made reference to the applicable Supervisory Policy Manuals and the Guideline on the Application of the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (“HKMA”).

The accounting policies adopted in these consolidated interim financial statements are consistent with those adopted in the Bank’s 2010 Annual Report except for the adoption of new HKFRSs, HKASs and Interpretations as disclosed in note 3 below.

2. BASIS OF PREPARATION

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

The consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's 2010 Annual Report.

Basis of consolidation

The consolidated interim financial statements comprise the interim financial statements of the Bank and its subsidiaries as at and for the period ended 30 June 2011.

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 period are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

NOTES TO FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (Continued) Basis of consolidation (Continued)

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

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

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

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

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 the 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 level required as soon as possible.

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

There are no major restrictions or impediments on the transfer of capital or funds among the members of the Bank's consolidation group except that liquidity, capital and other performance indicators of Public Financial Securities Limited and Public Securities Limited should satisfy the minimum requirements of 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 a non-distributable regulatory reserve as part of supplementary capital included in capital base pursuant to the HKMA capital requirements.

NOTES TO FINANCIAL STATEMENTS

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The HKICPA has issued a number of new HKFRSs, HKASs and Interpretations, which are generally effective for accounting periods beginning on or after 1 January 2011. The Group has adopted the following HKFRSs, HKASs and Hong Kong (International Financial Reporting Interpretations Committee) Interpretations (“HK(IFRIC)-Int”) issued up to 30 June 2011 which are pertinent to its operations and relevant to these interim financial statements.

- HKAS 24 (Revised) *Related Party Disclosures*
- HKAS 32 Amendments *Amendments to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues*
- Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
- HK(IFRIC)-Int 19 *Extinguishing Financial Liabilities with Equity Instruments*

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Amendments to HKFRS 1, HKFRS 3, HKFRS 7, HKAS 1, HKAS 27, HKAS 34 and HK(IFRIC)-Int 13 are effective for the reporting period.

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

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

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

HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are re-negotiated and resulted in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. 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.

NOTES TO FINANCIAL STATEMENTS

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

In May 2010, the HKICPA issued *Improvements to HKFRSs* which sets out amendments to HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. There is a separate transitional provision for each standard. While the adoption of some of them may result in changes in accounting policies, these amendments have no significant financial impact on the Group.

- (a) HKFRS 1 Amendment: It 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 the revaluation basis as deemed cost and extends the use of the deemed cost exemption to entities with operations subject to rate regulation.
- (b) HKFRS 3 Amendments clarify 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 arises from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

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

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

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

NOTES TO FINANCIAL STATEMENTS

4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

- HKFRS 7 Amendments Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*¹
- HKFRS 9 *Financial Instruments*³
- HKAS 12 Amendments Amendments to HKAS 12 *Income Taxes: Deferred Tax : Recovery of Underlying Assets*²

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 January 2013

HKFRS 7 Amendments require an entity to disclose both quantitative and qualitative information for the derecognition of financial assets where the entity has a continuing involvement in the derecognised assets. The Group expects to adopt HKFRS 7 from 1 July 2011. As the Group does not have continuing involvement in the derecognised assets, the amendments will not have any 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 ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI 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.

NOTES TO FINANCIAL STATEMENTS

4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs (Continued)

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.

HKAS 12 Amendments provide guidance on deferred tax measurement for investment properties carried under the fair value model in accordance with HKAS 40. The presumption that the carrying value of underlying asset will be recovered through sale is rebutted if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale.

5. 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. 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 debts and equity securities, securities dealing and receipt of commission income and provision of authorised wealth management products and services; and
- other business segments comprise letting of investment properties.

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

NOTES TO FINANCIAL STATEMENTS

5. SEGMENT INFORMATION (Continued)

The following table represents revenue and profit information for operating segments for the six months ended 30 June 2011 and 2010, and certain asset and liability information regarding operating segments as at 30 June 2011 and 2010.

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Total	
	30 June 2011 (Unaudited) HK\$'000	30 June 2010 (Unaudited) HK\$'000	30 June 2011 (Unaudited) HK\$'000	30 June 2010 (Unaudited) HK\$'000	30 June 2011 (Unaudited) HK\$'000	30 June 2010 (Unaudited) HK\$'000	30 June 2011 (Unaudited) HK\$'000	30 June 2010 (Unaudited) HK\$'000
Segment revenue								
Net interest income	602,404	636,099	32	13	-	-	602,436	636,112
Other operating income:								
Fees and commission income	78,027	69,270	59,053	43,069	-	-	137,080	112,339
Others	5,241	7,876	-	-	3,034	3,019	8,275	10,895
Inter-segment transaction:								
Net interest income	26	-	-	-	-	-	26	-
Operating income	685,698	713,245	59,085	43,082	3,034	3,019	747,817	759,346
Segment results	223,011	246,903	23,237	18,636	2,396	2,178	248,644	267,717
Share of profits and losses of a jointly-controlled entity							-	-
Profit before tax							248,644	267,717
Tax							(43,774)	(43,689)
Profit for the period							204,870	224,028
Segment assets other than interests in a jointly-controlled entity and intangible assets	37,211,607	34,514,568	610,333	330,760	47,574	44,860	37,869,514	34,890,188
Interests in a jointly-controlled entity	1,513	1,513	-	-	-	-	1,513	1,513
Intangible assets	-	-	718	718	-	-	718	718
Goodwill	242,342	242,342	-	-	-	-	242,342	242,342
	37,455,462	34,758,423	611,051	331,478	47,574	44,860	38,114,087	35,134,761
Unallocated assets:								
Deferred tax assets and tax recoverable							15,136	19,964
Total assets							38,129,223	35,154,725
Segment liabilities	32,627,129	30,124,301	438,164	192,560	2,748	50,959	33,068,041	30,367,820
Unallocated liabilities:								
Deferred tax liabilities and tax payable							80,621	51,447
Dividends payable							-	-
Total liabilities							33,148,662	30,419,267
Other segment information								
Additions to non-current assets – capital expenditure	13,021	6,801	-	-	-	-	13,021	6,801
Depreciation of property and equipment and land held under finance leases	12,568	12,069	-	-	-	-	12,568	12,069
Change in fair value of investment properties	-	-	-	-	(236)	-	(236)	-
Impairment allowances for loans and advances and receivables	176,880	149,238	-	-	-	-	176,880	149,238
Net losses on disposal of property and equipment	148	13	-	-	-	-	148	13

NOTES TO FINANCIAL STATEMENTS

5. SEGMENT INFORMATION (Continued)

Geographical segment

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

Operating income or revenue from major customers

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

6. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Interest income from:		
Loans and advances and receivables	707,827	680,131
Short term placements and placements with banks	17,067	11,131
Held-to-maturity investments	32,658	37,466
	<u>757,552</u>	<u>728,728</u>
Interest expense on:		
Deposits from banks and financial institutions	5,487	4,846
Deposits from customers	144,775	87,770
Bank loans	4,828	-
	<u>155,090</u>	<u>92,616</u>

Interest income and interest expenses for the six months ended 30 June 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\$757,552,000 and HK\$155,090,000 respectively (2010: HK\$728,728,000 and HK\$92,616,000). Interest income of the impaired loans and advances for the six months ended 30 June 2011 amounted to HK\$2,577,000 (2010: HK\$6,420,000).

NOTES TO FINANCIAL STATEMENTS

7. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Fees and commission income:		
Retail and commercial banking	78,546	69,813
Wealth management services, stockbroking and securities management	59,053	43,069
	<u>137,599</u>	<u>112,882</u>
Less: Fees and commission expenses	(519)	(543)
Net fees and commission income	<u>137,080</u>	<u>112,339</u>
Gross rental income	3,054	3,037
Less: Direct operating expenses	(20)	(18)
Net rental income	3,034	3,019
Gains less losses arising from dealing in foreign currencies	3,646	5,482
Dividend income from listed investments	8	7
Dividend income from unlisted investments	500	980
Net losses on disposal of property and equipment	(148)	(13)
Others	1,235	1,420
	<u>145,355</u>	<u>123,234</u>

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 six months ended 30 June 2011 and 2010.

All fees and commission income and expenses are related to financial assets or financial 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.

NOTES TO FINANCIAL STATEMENTS

8. OPERATING EXPENSES

	For the six months ended	
	30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Staff costs:		
Salaries and other staff costs	181,357	177,187
Pension contributions	8,755	7,849
Less: Forfeited contributions	(7)	(5)
Net retirement benefit schemes	8,748	7,844
	190,105	185,031
Other operating expenses:		
Operating lease rentals on leasehold buildings	25,264	23,058
Depreciation of property and equipment and land held under finance leases	12,568	12,069
Administrative and general expenses	34,302	30,637
Others	94,447	91,596
Operating expenses before changes in fair value of investment properties	356,686	342,391

As at 30 June 2011, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years (2010: Nil). The current period credits arose in respect of staff who left the schemes during the period.

NOTES TO FINANCIAL STATEMENTS

9. IMPAIRMENT ALLOWANCES

	For the six months ended	
	30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net charge for/(write-back of) impairment losses and allowances:		
- Loans and advances	179,066	150,089
- Trade bills, accrued interest and receivables	(2,186)	(851)
	176,880	149,238
Net charge for/(write-back of) impairment losses and allowances:		
- Individually assessed	177,929	156,925
- Collectively assessed	(1,049)	(7,687)
	176,880	149,238
Of which:		
- new impairment losses and allowances (including any amount directly written off during the period)	256,629	233,946
- releases and recoveries	(79,749)	(84,708)
Net charge to the consolidated income statement	176,880	149,238

There were no impairment allowances for financial assets other than loans and advances and receivables for the six months ended 30 June 2011 and 2010.

NOTES TO FINANCIAL STATEMENTS

10. TAX

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Current tax charge :		
Hong Kong	41,224	41,500
Elsewhere	5,936	725
Underprovisions/(overprovisions) in prior years	852	(1,099)
Deferred tax (credit)/charge, net	(4,238)	2,563
	<u>43,774</u>	<u>43,689</u>

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 period. 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:

	For the six months ended 30 June 2011 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>245,458</u>		<u>3,186</u>		<u>248,644</u>	
Tax at the applicable tax rate	40,501	16.5	765	24.0	41,266	16.6
Effect on change in tax rate	-	-	74	2.3	74	-
Estimated tax effect of net expenses that are not deductible	622	0.3	-	-	622	0.3
Adjustments in respect of deferred tax of previous periods	960	0.4	-	-	960	0.4
Adjustments in respect of current tax of previous periods	1,500	0.6	(648)	(20.3)	852	0.3
Tax charge at the Group's effective rate	<u>43,583</u>	17.8	<u>191</u>	6.0	<u>43,774</u>	17.6

NOTES TO FINANCIAL STATEMENTS

10. TAX (Continued)

	For the six months ended 30 June 2010 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>264,105</u>		<u>3,612</u>		<u>267,717</u>	
Tax at the applicable tax rate	43,577	16.5	795	22.0	44,372	16.6
Effect on change in tax rate	-	-	60	1.7	60	-
Estimated tax effect of net expenses that are not deductible	358	0.1	-	-	358	0.1
Estimated tax losses from previous periods utilised	(2)	-	-	-	(2)	-
Adjustments in respect of current tax of previous periods	<u>2,328</u>	<u>0.9</u>	<u>(3,427)</u>	<u>(94.9)</u>	<u>(1,099)</u>	<u>(0.4)</u>
Tax charge at the Group's effective rate	<u>46,261</u>	<u>17.5</u>	<u>(2,572)</u>	<u>(71.2)</u>	<u>43,689</u>	<u>16.3</u>

11. DIVIDENDS

	For the six months ended 30 June			
	2011	2010	2011	2010
	HK\$ per ordinary share	HK\$ per ordinary share	HK\$'000	HK\$'000
Interim	<u>6.410</u>	7.187	<u>94,971</u>	106,483

On 18 July 2011, the Board of Directors declared an interim dividend of HK\$6.410 per ordinary share totaling HK\$94,970,560.

NOTES TO FINANCIAL STATEMENTS

12. CASH AND SHORT TERM PLACEMENTS

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Cash in hand	132,215	123,198
Placements with banks and financial institutions	547,478	558,749
Money at call and short notice	4,268,620	5,336,662
	4,948,313	6,018,609

Over 90% of the placements are 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.

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

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Placements with banks and financial institutions	332,536	723,715

Over 90% of the placements are 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.

NOTES TO FINANCIAL STATEMENTS

14. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Loans and advances to customers	27,765,929	26,714,360
Trade bills	65,039	31,170
Loans and advances, and trade bills	27,830,968	26,745,530
Accrued interest	82,028	81,829
Other receivables	27,912,996	26,827,359
	3,935	3,768
Gross loans and advances and receivables	27,916,931	26,831,127
Less: Impairment allowances for loans and advances and receivables		
- Individually assessed	(172,805)	(171,645)
- Collectively assessed	(31,827)	(32,876)
	(204,632)	(204,521)
Loans and advances and receivables	27,712,299	26,626,606

NOTES TO FINANCIAL STATEMENTS

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

Loans and advances and receivables are summarised as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Neither past due nor impaired loans and receivables	26,958,614	25,961,121
Past due but not impaired loans and advances and receivables	668,799	539,224
Individually impaired loans and advances	276,235	315,307
Individually impaired receivables	13,283	15,475
Total loans and advances and receivables	27,916,931	26,831,127

About 65% of "Neither past due nor impaired loans and receivables" were residential property mortgage loans, commercial property mortgage loans and hire purchase loans secured by cash, properties, taxi licences and vehicles.

NOTES TO FINANCIAL STATEMENTS

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2011 (Unaudited)		31 December 2010 (Audited)	
	Gross amount HK\$'000	Percentage of total loans and advances %	Gross amount HK\$'000	Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	90,534	0.33	90,527	0.34
One year or less but over six months	6,684	0.02	5,621	0.02
Over one year	138,656	0.50	175,919	0.66
Loans and advances overdue for more than three months	235,874	0.85	272,067	1.02
Rescheduled loans and advances overdue for three months or less	34,441	0.12	39,328	0.15
Impaired accounts overdue for three months or less	5,920	0.02	3,912	0.01
Total overdue and impaired loans and advances	276,235	0.99	315,307	1.18

NOTES TO FINANCIAL STATEMENTS

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	5	12
One year or less but over six months	-	1,778
Over one year	13,265	13,683
Trade bills, accrued interest and other receivables overdue for more than three months	13,270	15,473
Impaired accounts overdue for three months or less	13	2
Total overdue and impaired trade bills, accrued interest and other receivables	13,283	15,475

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

NOTES TO FINANCIAL STATEMENTS

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2011 (Unaudited)			31 December 2010 (Audited)		
	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	110,352	138,792	249,144	153,695	133,845	287,540
Individual impairment allowances	70,833	77,877	148,710	92,392	55,942	148,334
Collective impairment allowances	-	-	-	-	-	-
Current market value and fair value of collateral			206,126			252,189
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	150,726	138,792	289,518	196,937	133,845	330,782
Individual impairment allowances	94,928	77,877	172,805	115,703	55,942	171,645
Collective impairment allowances	-	-	-	-	-	-
Current market value and fair value of collateral			208,214			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.

NOTES TO FINANCIAL STATEMENTS

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	<u>206,126</u>	252,189
Covered portion of overdue loans and advances	<u>76,442</u>	88,701
Uncovered portion of overdue loans and advances	<u>159,432</u>	183,366

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 30 June 2011, the total value of repossessed assets of the Group amounted to HK\$16,180,000 (31 December 2010: HK\$26,190,000).

NOTES TO FINANCIAL STATEMENTS

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2011 (Unaudited)		31 December 2010 (Audited)	
	Gross amount HK\$'000	Percentage of total loans and advances %	Gross amount HK\$'000	Percentage of total loans and advances %
Loans and advances overdue for less than three months	667,309	2.40	538,292	2.01
Rescheduled but not impaired loans and advances	-	-	-	-
	667,309	2.40	538,292	2.01
Trade bills, accrued interest and other receivables overdue less than three months	1,490		932	

NOTES TO FINANCIAL STATEMENTS

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	Individual impairment allowance HK\$'000	30 June 2011 (Unaudited) Collective impairment allowance HK\$'000	Total HK\$'000
At 1 January 2011	171,645	32,876	204,521
Amounts written off	(252,984)	-	(252,984)
Impairment losses and allowances charged to the consolidated income statement	255,751	878	256,629
Impairment losses and allowances released to the consolidated income statement	(77,822)	(1,927)	(79,749)
Net charge of impairment losses and allowances	177,929	(1,049)	176,880
Loans and advances and receivables recovered	75,040	-	75,040
Exchange difference	1,175	-	1,175
At 30 June 2011	172,805	31,827	204,632
Deducted from:			
Loans and advances	170,986	31,468	202,454
Trade bills, accrued interest and other receivables	1,819	359	2,178
	172,805	31,827	204,632

NOTES TO FINANCIAL STATEMENTS

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2010 (Audited)		Total HK\$'000
	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000	
At 1 January 2010	160,365	109,654	270,019
Amounts written off	(478,694)	-	(478,694)
Impairment losses and allowances charged to the consolidated income statement	509,323	-	509,323
Impairment losses and allowances released to the consolidated income statement	(151,454)	(76,824)	(228,278)
Net charge of impairment losses and allowances	357,869	(76,824)	281,045
Loans and advances and receivables recovered	131,181	-	131,181
Exchange difference	924	46	970
At 31 December 2010	171,645	32,876	204,521
Deducted from:			
Loans and advances	167,490	32,667	200,157
Trade bills, accrued interest and other receivables	4,155	209	4,364
	171,645	32,876	204,521

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

NOTES TO FINANCIAL STATEMENTS

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(g) Finance lease receivables

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

	30 June 2011 (Unaudited)		31 December 2010 (Audited)	
	Minimum lease payments HK\$'000	Present value of minimum lease payments HK\$'000	Minimum lease payments HK\$'000	Present value of minimum lease payments HK\$'000
Amounts receivable under finance leases:				
Within one year	394,852	309,799	422,145	327,058
In the second to fifth years, inclusive	1,038,104	797,497	1,129,905	863,244
Over five years	3,510,946	3,009,524	3,853,487	3,287,420
	<u>4,943,902</u>	<u>4,116,820</u>	5,405,537	<u>4,477,722</u>
Less: Unearned finance income	<u>(827,082)</u>		<u>(927,815)</u>	
Present value of minimum lease payments receivable	<u>4,116,820</u>		<u>4,477,722</u>	

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

NOTES TO FINANCIAL STATEMENTS

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Unlisted equity investments, at fair value:		
At the beginning and the end of the period/year	6,804	6,804

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

16. HELD-TO-MATURITY INVESTMENTS

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Unlisted:		
Certificates of deposit held	1,366,848	147,767
Treasury bills (including Exchange Fund Bills)	1,049,915	1,099,681
Other debt securities	1,795,308	1,462,328
	4,212,071	2,709,776
Analysed by types of issuers:		
- Central government	1,049,915	1,099,681
- Banks and other financial institutions	3,162,156	1,610,095
	4,212,071	2,709,776

Impairment allowances of held-to-maturity investments were nil as at 30 June 2011 and 31 December 2010. There were no movements in impairment allowance in the period under review and 2010.

There were neither impaired nor overdue held-to-maturity investments as at 30 June 2011 and 31 December 2010. There were no listed held-to-maturity investments as at 30 June 2011 and 31 December 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.

NOTES TO FINANCIAL STATEMENTS

17. OTHER ASSETS

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Interest receivables from authorised institutions	2,601	3,108
Other debtors, deposits and prepayments	<u>425,348</u>	<u>266,879</u>
	<u>427,949</u>	<u>269,987</u>

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

18. INTANGIBLE ASSETS

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Cost:		
At the beginning of the period/year and at the end of the period/year	<u>1,923</u>	1,923
Accumulated impairment:		
At the beginning of the period/year and at the end of the period/year	<u>1,205</u>	1,205
Net carrying amount:		
At the beginning of the period/year and at the end of the period/year	<u>718</u>	718

Intangible assets of the Group represent trading rights which are retained for stock trading and stockbroking activities, and have indefinite useful lives. They comprise five units (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 30 June 2011 and 31 December 2010.

NOTES TO FINANCIAL STATEMENTS

19. PROPERTY AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements, furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
Cost:			
At 1 January 2011	17,090	148,891	165,981
Additions	-	13,021	13,021
Disposals/write-off	-	(236)	(236)
At 30 June 2011	17,090	161,676	178,766
Accumulated depreciation:			
At 1 January 2011	4,568	92,804	97,372
Provided during the period	169	10,768	10,937
Disposals/write-off	-	(88)	(88)
Exchange difference	21	-	21
At 30 June 2011	4,758	103,484	108,242
Net carrying amount:			
At 30 June 2011	12,332	58,192	70,524
At 31 December 2010	12,522	56,087	68,609

NOTES TO FINANCIAL STATEMENTS

19. PROPERTY AND EQUIPMENT (Continued)

	Buildings HK\$'000	Leasehold improvements, furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
Cost:			
At 1 January 2010	16,647	168,395	185,042
Additions	-	16,933	16,933
Transfer from investment properties	443	-	443
Disposals/write-off	-	(36,437)	(36,437)
At 31 December 2010	17,090	148,891	165,981
Accumulated depreciation:			
At 1 January 2010	4,193	108,089	112,282
Provided during the year	334	21,044	21,378
Disposals/write-off	-	(36,329)	(36,329)
Exchange difference	41	-	41
At 31 December 2010	4,568	92,804	97,372
Net carrying amount:			
At 31 December 2010	12,522	56,087	68,609
At 31 December 2009	12,454	60,306	72,760

No valuation has been made for the above items of property and equipment for the period ended 30 June 2011 and the year ended 31 December 2010.

NOTES TO FINANCIAL STATEMENTS

20. LAND HELD UNDER FINANCE LEASES

	HK\$'000
Cost:	
At 1 January 2010	132,931
Transfer from investment properties	<u>4,265</u>
At 31 December 2010 and 30 June 2011	<u>137,196</u>
Accumulated depreciation and impairment:	
At 1 January 2010	22,724
Depreciation provided during the year	<u>3,216</u>
At 31 December 2010 and 1 January 2011	<u>25,940</u>
Depreciation provided during the period	<u>1,631</u>
At 30 June 2011	<u>27,571</u>
Net carrying amount:	
At 30 June 2011	<u>109,625</u>
At 31 December 2010	<u>111,256</u>

Land leases were 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.

NOTES TO FINANCIAL STATEMENTS

21. INVESTMENT PROPERTIES

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Carrying amount at the beginning of the period/year	47,338	49,568
Transfer to property and equipment	<u>-</u>	<u>(4,708)</u>
Carrying amount before change in fair value	47,338	44,860
Changes in fair value	<u>236</u>	<u>2,478</u>
Carrying amount at the end of the period/year	<u>47,574</u>	<u>47,338</u>

At 30 June 2011, investment properties with a carrying amount of HK\$47,338,000 (31 December 2010: HK\$44,860,000) were revalued at HK\$47,574,000 (31 December 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, existing use basis. The increase in fair value of HK\$236,000 (31 December 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 27(a) to the financial statements.

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

NOTES TO FINANCIAL STATEMENTS

22. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Demand deposits and current accounts	1,877,844	2,051,711
Savings deposits	4,004,730	4,563,894
Time, call and notice deposits	23,351,504	23,129,368
	29,234,078	29,744,973

23. UNSECURED BANK LOANS AT AMORTISED COST

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Unsecured bank loans, repayable on demand or within a period not exceeding one year	829,733	878,939

The amount repayable on demand of the Group was a term loan of HK\$30,000,000 as at 30 June 2011 (31 December 2010: HK\$80,000,000). The term loan 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.

24. OTHER LIABILITIES

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Interest payable	50,288	46,169
Creditors, accruals and other payables	591,837	374,408
	642,125	420,577

NOTES TO FINANCIAL STATEMENTS

25. RESERVES

	Share premium account HK\$'000	Group reconstruction reserve HK\$'000	Available- for-sale financial assets revaluation reserve HK\$'000	Capital reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
At 1 January 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
Other comprehensive income	-	-	-	-	-	-	13,205	13,205
Transfer from retained profits	-	-	-	-	55,943	(55,943)	-	-
Dividends paid in respect of previous year	-	-	-	-	-	(87,340)	-	(87,340)
Dividends paid in respect of current year	-	-	-	-	-	(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 period	-	-	-	-	-	204,870	-	204,870
Other comprehensive income	-	-	-	-	-	-	12,300	12,300
Transfer from retained profits	-	-	-	-	64,963	(64,963)	-	-
Dividends paid in respect of previous year	-	-	-	-	-	(106,112)	-	(106,112)
At 30 June 2011	1,372,445	3,065	-	17,660	387,287	1,658,019	60,485	3,498,961

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 Group's regulatory reserve and collective impairment allowance were included as supplementary capital in the Group's capital base at 30 June 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 direction of the HKMA.

NOTES TO FINANCIAL STATEMENTS

26. OFF-BALANCE SHEET EXPOSURE

(a) Contingent liabilities, commitments and derivatives

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

	30 June 2011 (Unaudited)				
	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	Credit risk- weighted amount HK\$'000	Positive fair value- assets HK\$'000	Negative fair value- liabilities HK\$'000
Direct credit substitutes	231,926	231,926	31,862	-	-
Transaction-related contingencies	23,204	11,602	1,975	-	-
Trade-related contingencies	75,144	15,028	12,902	-	-
Forward forward deposits placed	155,660	155,660	31,132	-	-
Forward asset purchases	14,840	14,840	2,968	-	-
	500,774	429,056	80,839	-	-
Derivatives held for trading (Note 26(b)):					
Foreign exchange rate contracts	822,768	2,507	561	1,819	2,360
Interest rate swaps	-	-	-	-	-
	822,768	2,507	561	1,819	2,360
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	130,061	65,030	65,030	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,716,720	-	-	-	-
	5,170,323	496,593	146,430	1,819	2,360
Capital commitments contracted for, but not provided in the statement of financial position	4,395				

NOTES TO FINANCIAL STATEMENTS

26. OFF-BALANCE SHEET EXPOSURE (Continued)

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

	31 December 2010 (Audited)				
	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	Credit risk- weighted amount HK\$'000	Positive fair value- assets HK\$'000	Negative fair value- liabilities HK\$'000
Direct credit substitutes	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 26(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	4,166,068	-	-	-	-
	5,580,979	429,292	180,908	10,167	5,435
Capital commitments contracted for, but not provided in the statement of financial position	7,150				

NOTES TO FINANCIAL STATEMENTS

26. OFF-BALANCE SHEET EXPOSURE (Continued)

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

The Group had not entered into any bilateral netting arrangements and accordingly the above amounts are shown on a gross basis. The credit risk-weighted amounts are calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments and from 0% to 50% for exchange rate contracts.

As at 30 June 2011 and 31 December 2010, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

(b) Derivative financial instruments

The Group uses the following derivative instruments:

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

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

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

NOTES TO FINANCIAL STATEMENTS

27. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (Note 21) under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

At 30 June 2011 and 31 December 2010, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within one year	2,475	1,449
In the second to fifth years, inclusive	999	653
	<u>3,474</u>	<u>2,102</u>

(b) As lessee

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

At 30 June 2011 and 31 December 2010, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within one year	76,998	51,333
In the second to fifth years, inclusive	58,280	25,702
	<u>135,278</u>	<u>77,035</u>

NOTES TO FINANCIAL STATEMENTS

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Set out below is a comparison by class of the carrying amounts and fair values of the Group'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.

	30 June 2011 (Unaudited)			31 December 2010 (Audited)		
	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	4,948,313	4,948,313	-	6,018,609	6,018,609	-
Placements with banks and financial institutions maturing after one month but not more than twelve months	332,536	332,536	-	723,715	723,715	-
Derivative financial instruments	1,819	1,819	-	10,167	10,167	-
Loans and advances and receivables	27,712,299	27,712,299	-	26,626,606	26,626,606	-
Available-for-sale financial assets	6,804	6,804	-	6,804	6,804	-
Held-to-maturity investments	4,212,071	4,211,766	(305)	2,709,776	2,708,954	(822)
Other assets	427,949	427,949	-	269,987	269,987	-
Financial liabilities						
Deposits and balances of banks and other financial institutions at amortised cost	1,846,807	1,846,807	-	680,382	680,382	-
Derivative financial instruments	2,360	2,360	-	5,435	5,435	-
Customer deposits at amortised cost	29,234,078	29,234,078	-	29,744,973	29,744,973	-
Certificates of deposit issued at amortised cost	512,938	512,938	-	200,000	200,000	-
Unsecured bank loans at amortised cost	829,733	829,733	-	878,939	878,939	-
Other liabilities	642,125	642,125	-	420,577	420,577	-
Total unrecognised loss			<u>(305)</u>			<u>(822)</u>

(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.

NOTES TO FINANCIAL STATEMENTS

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Fixed rate financial instruments

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

(b) Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or repackaging);

Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input are not based on observable market data.

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

	30 June 2011 (Unaudited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets:				
Derivative financial instruments	-	1,819	-	1,819
Available-for-sale financial assets	-	-	6,804	6,804
	-	1,819	6,804	8,623
Financial liabilities:				
Derivative financial instruments	-	2,360	-	2,360

NOTES TO FINANCIAL STATEMENTS

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

During the six months ended 30 June 2011 and the year ended 31 December 2010, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

There were no issues and settlements related to the Level 3 financial instruments for the six months ended 30 June 2011 and for the year ended 31 December 2010. Full impairment in relation to Lehman Brothers Minibonds was written back and there were nil outstanding exposures and impairment in relation to Lehman Brothers Minibonds as at 30 June 2011.

There were no gains or losses and nil comprehensive income reported in the condensed consolidated income statement and the condensed consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the six months ended 30 June 2011 and 2010.

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

There were no financial assets and financial liabilities that offset against each other as at 30 June 2011 and 31 December 2010.

NOTES TO FINANCIAL STATEMENTS

29. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The tables below show an analysis of financial assets and financial liabilities analysed by principal according to the periods that they are expected to be recovered or settled.

	30 June 2011 (Unaudited)							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	679,693	4,268,620	-	-	-	-	-	4,948,313
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	133,123	199,413	-	-	-	332,536
Loans and advances and receivables	488,211	1,301,615	1,124,741	3,499,539	8,135,206	13,210,869	156,750	27,916,931
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	2,424,060	1,735,527	50,076	2,408	-	-	4,212,071
Other assets	128	374,240	705	832	771	-	51,273	427,949
Foreign exchange contracts (gross)	-	772,439	50,329	-	-	-	-	822,768
Total financial assets	1,168,032	9,140,974	3,044,425	3,749,860	8,138,385	13,210,869	214,827	38,667,372
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	42,986	585,451	1,078,370	140,000	-	-	-	1,846,807
Customer deposits at amortised cost	5,898,776	11,133,631	9,022,992	3,091,527	87,152	-	-	29,234,078
Certificates of deposit issued at amortised cost	-	-	-	512,938	-	-	-	512,938
Unsecured bank loans at amortised cost	30,000	-	799,733	-	-	-	-	829,733
Other liabilities	784	287,015	17,814	11,247	4,117	-	321,148	642,125
Foreign exchange contracts (gross)	-	773,019	50,290	-	-	-	-	823,309
Total financial liabilities	5,972,546	12,779,116	10,969,199	3,755,712	91,269	-	321,148	33,888,990
	31 December 2010 (Audited)							
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	Total HK\$'000
Financial assets:								
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

NOTES TO FINANCIAL STATEMENTS

30. 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 the compliance with the policies and procedures.

Market risk management

(a) Interest rate risk

Interest rate risk is the risk that the Group's position may be adversely affected by a change of market interest rates. The Group's interest rate risk arises primarily from the timing difference in the maturity and the repricing of the Group's interest-bearing assets, liabilities and off-balance sheet commitments. The primary objective of interest rate risk management is to limit the potential adverse effects of interest rate movements in net interest income by closely monitoring the net repricing gap of the Group's assets and liabilities. 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.

NOTES TO FINANCIAL STATEMENTS

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(b) Currency risk

Currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign exchange positions are managed by the Group's Treasury Department within limits approved by the board of directors. The Group has no significant foreign currency risk as the Group's assets and liabilities are mainly denominated in Hong Kong dollars and United States dollars, of which the exchange rates have remained relatively stable against each other for the six months ended 30 June 2011 and the year ended 31 December 2010. Accordingly, no quantitative market risk disclosures for currency risk have been made.

(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.

NOTES TO FINANCIAL STATEMENTS

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management

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

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

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

Credit and compliance audits are periodically conducted by Internal Audit 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 the loan-to-value ratio, debts servicing ratio, financial soundness of borrowers and personal guarantees) 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.

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.

NOTES TO FINANCIAL STATEMENTS

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management (Continued)

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 collateral such as cash, properties, taxi licences and vehicles and securities.

The “Neither past due nor impaired loans and receivables” are shown in note 14 to the financial statements.

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

Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its current 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.

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, and highlights key operational risk factors and categories with loss event types to facilitate the measurement and assessment of operational risks and their potential impact. Operational risk exposures are monitored by appropriate key risk indicators for tracking and escalation to management for providing early warning signals of increased operational risk or a breakdown in operational risk management. Regular operational risk management reports are received and consolidated from various parties and reported to the Operational Risk Management Committee for monitoring and controlling operational risk.

NOTES TO FINANCIAL STATEMENTS

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management

Capital of the Bank for regulatory and risk management purposes includes share capital, share premium, reserves, retained profits, regulatory reserve and sub-ordinated debts, if any. Finance and Control Department is responsible for monitoring the amount of the capital base and capital adequacy ratio against trigger limits and for risk exposures 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 the 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

	30 June 2011 (Unaudited)	31 December 2010 (Audited)
Group:		
Capital adequacy ratio	18.5%	18.8%
Core capital ratio	17.4%	17.7%
Bank:		
Capital adequacy ratio	14.9%	15.2%
Core capital ratio	14.9%	15.2%

NOTES TO FINANCIAL STATEMENTS

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Disclosures

The components of total capital base include the following items:

	Group		Bank	
	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Core capital:				
Paid up ordinary share capital	1,481,600	1,481,600	1,481,600	1,481,600
Share premium account	1,372,445	1,372,445	1,372,445	1,372,445
Published reserves	1,570,662	1,305,186	1,576,658	1,463,969
Income statement	83,337	318,139	98,614	164,318
Deduct:				
Goodwill	(242,342)	(242,342)	-	-
Deferred tax assets	(6,360)	(1,226)	(6,310)	(986)
Core capital before deductions	4,259,342	4,233,802	4,523,007	4,481,346
Less: Deductions from shareholdings in subsidiaries	(33,054)	(33,054)	(1,507,510)	(1,516,600)
Other deductions	(5,152)	(5,152)	(5,152)	(5,152)
Total core capital after deductions	4,221,136	4,195,596	3,010,345	2,959,594
Supplementary capital:				
Regulatory reserve	272,351	263,831	233,638	224,549
Collective impairment allowances	31,827	32,876	20,000	20,000
Supplementary capital before deductions	304,178	296,707	253,638	244,549
Less: Deductions from shareholdings in subsidiaries	(33,054)	(33,054)	(248,486)	(239,397)
Other deductions	(5,152)	(5,152)	(5,152)	(5,152)
Total supplementary capital after deductions	265,972	258,501	-	-
Capital base	4,487,108	4,454,097	3,010,345	2,959,594

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

Capital adequacy ratios at 30 June 2011 and 31 December 2010 were compiled on both solo and consolidated basis in accordance with the Banking (Capital) Rules under Section 98A of the Banking Ordinance for the implementation of the "Basel II" capital accord. The subsidiary consolidated into capital base and risk weighted exposure is Public Finance.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

Advances to customers by industry sectors

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

	30 June 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	557,360	414	281	281	2,018	499,464	89.6	281	281
Building & construction, property development and investment									
Property development	506,914	380	-	21	-	22,524	4.4	-	-
Property investment	6,475,576	4,851	-	-	-	5,790,878	89.4	-	-
Civil engineering works	103,622	76	-	-	-	20,097	19.4	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	1,816	1	-	-	-	1,816	100.0	-	-
Information technology	49,968	37	-	-	-	932	1.9	-	-
Wholesale and retail trade	84,864	55	-	69	89	70,281	82.8	-	-
Transport and transport equipment	4,093,642	2,777	2,150	373	1,133	4,054,569	99.0	2,463	1,765
Hotels, boarding houses & catering	363,923	273	-	-	-	32,388	8.9	-	-
Financial concerns	416,224	312	-	114	-	375,872	90.3	-	-
Stockbrokers									
Margin lending	103,200	77	-	-	-	103,200	100.0	-	-
Others	479	-	-	-	-	479	100.0	-	-
Non-stockbroking companies & individuals for the purchase of shares									
Margin lending	40,452	30	-	-	-	908	2.2	-	-
Others	74,733	56	-	-	-	74,733	100.0	-	-
Professional & private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme & Tenant Purchase Scheme	159,313	119	-	-	-	159,313	100.0	200	-
Loans for the purchase of other residential properties	8,000,252	5,726	-	267	-	7,931,116	99.1	-	-
Loans for credit card advances	16,666	12	220	329	122	-	-	221	162
Loans for other business purposes	2,759	2	-	2	-	2,759	100.0	-	-
Loans for other private purposes	3,783,842	12,015	91,471	220,105	219,816	281,745	7.4	133,285	93,881
Trade finance	491,338	368	-	50	14,224	363,829	74.0	11,614	11,614
Other loans and advances	92,015	69	-	-	-	74,321	80.8	-	-
Sub-total	25,418,958	27,650	94,122	221,611	237,402	19,861,224	78.1	148,064	107,703
Loans and advances for use outside Hong Kong	2,346,971	3,818	76,864	33,280	15,582	963,078	41.0	128,171	128,171
Total loans and advances (excluding trade bills and other receivables)	27,765,929	31,468	170,986	254,891	252,984	20,824,302	75.0	276,235	235,874

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

Advances to customers by industry sectors (Continued)

	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 & 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 & 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 & 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 & private individuals										
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme & 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	

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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

Non-bank Mainland China exposures

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

	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total exposures HK\$'million	Individual impairment allowance HK\$'million
As at 30 June 2011				
Mainland China entities	1,445	59	1,504	77
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	549	150	699	-
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland China exposures	-	-	-	-
	1,994	209	2,203	77

	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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

Cross-border claims

The following table illustrates the geographical disclosure of the Group'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 was prepared in accordance with the guidelines issued by HKMA.

	Banks and other financial institutions HK\$'million	Public sector entities HK\$'million	Others HK\$'million	Total HK\$'million
As at 30 June 2011				
1. Asia Pacific excluding				
Hong Kong, of which:	3,761	92	423	4,276
China	926	92	204	1,222
Malaysia	801	-	106	907
2. Western Europe, of which:	2,883	-	76	2,959
France	1,071	-	-	1,071
	Banks and other financial institutions HK\$'million	Public sector entities HK\$'million	Others HK\$'million	Total HK\$'million
As at 31 December 2010				
1. Asia Pacific excluding				
Hong Kong, of which:	3,605	53	397	4,055
China	940	53	83	1,076
Japan	793	-	26	819
2. Western Europe, of which:	3,591	-	89	3,680
France	1,210	-	-	1,210

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

Currency risk

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

	Spot assets HK\$'million	Spot liabilities HK\$'million	Forward purchases HK\$'million	Forward sales HK\$'million	Net long/ (short) position HK\$'million	Structural assets HK\$'million
As at 30 June 2011						
US dollars	4,265	4,300	416	377	4	-
Renminbi	442	466	3	-	(21)	602
Australian dollars	986	971	58	79	(6)	-
Others	1,191	1,022	192	363	(2)	-
	6,884	6,759	669	819	(25)	602

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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

Liquidity ratios

	For the six months ended	
	30 June	2010
	2011	
Average liquidity ratios for the period:		
Group	41.6%	46.8%
Bank	39.5%	42.1%

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 reporting period.

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

Liquidity ratio computation on consolidated basis is also required by the HKMA. The computation of average liquidity ratio on consolidated basis includes the Head Office, all branches of the Bank and Public Finance.

BUSINESS REVIEW

For the six months ended 30 June 2011, the Group recorded a profit after tax of HK\$204.8 million, representing a decrease of 8.6% or HK\$19.2 million from the profit after tax of HK\$224.0 million for the corresponding period in 2010. The decrease in the profit of the Group for the period under review was affected by narrowing net interest margin due to increased funding cost and increase in impairment allowances for the Group's consumer financing loans. Impairment allowances for loans and advances and receivables of the Group increased by 18.5% or HK\$27.6 million to HK\$176.9 million as compared to the corresponding period in 2010.

The Group's interest expense increased by 67.5% or HK\$62.5 million to HK\$155.1 million due to higher customer deposits cost and interbank funding costs, whilst interest income increased by only 4% or HK\$28.8 million to HK\$757.6 million, resulted in a decrease in net interest income and net interest margins of interest-bearing assets.

Total fee income from loan transactions, stockbroking and other businesses registered an increase of 18.0% or HK\$22.2 million to HK\$145.4 million in the period under review.

The Group's operating expenses increased marginally by 4.2% or HK\$14.3 million to HK\$356.7 million, mainly due to the increase in staff costs, premises related costs and marketing expenses when compared to the corresponding period in 2010.

During the period under review, impairment allowance in relation to the settlement with Lehman Brothers Minibonds investors amounted to HK\$34.2 million was written back due to the recovery of proceeds received from the underlying collateral for the Lehman Brothers Minibonds, net of the additional ex-gratia payments made to eligible Lehman Brothers Minibonds investors.

The Group's total loans and advances (including trade bills) further expanded by 4.1% or HK\$1.08 billion to HK\$27.83 billion as at 30 June 2011 from HK\$26.75 billion as at 31 December 2010. Due to keen competition and aggressive pricing offered by banks, the Group's deposits from customers decreased by 1.7% or HK\$0.51 billion to HK\$29.23 billion as at 30 June 2011 from HK\$29.74 billion as at 31 December 2010. Total assets of the Group stood at HK\$38.13 billion as at 30 June 2011.

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

Hong Kong, 18 July 2011