

# **PUBLIC BANK (HONG KONG) LIMITED**

Interim Financial Statements  
for the six months ended 30 June 2013

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

**INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2013**

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 2013 with comparative figures as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

	Notes	For the six months ended 30 June	
		2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Interest income	6	810,299	797,522
Interest expense	6	(147,815)	(194,205)
<b>NET INTEREST INCOME</b>		<b>662,484</b>	603,317
Other operating income	7	109,183	106,286
<b>OPERATING INCOME</b>		<b>771,667</b>	709,603
Operating expenses	8	(383,231)	(367,068)
Changes in fair value of investment properties		1,614	3,572
<b>OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES</b>		<b>390,050</b>	346,107
Impairment allowances for loans and advances and receivables	9	(160,753)	(154,221)
<b>PROFIT BEFORE TAX</b>		<b>229,297</b>	191,886
Tax	10	(41,801)	(33,216)
<b>PROFIT FOR THE PERIOD</b>		<b>187,496</b>	158,670
<b>ATTRIBUTABLE TO:</b>			
Owners of the Bank		<b>187,496</b>	158,670

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

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<b>PROFIT FOR THE PERIOD</b>	<b>187,496</b>	158,670
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD:</b>		
Exchange gain/(loss) on translating foreign operations, net of tax	<u>9,553</u>	<u>(5,920)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b><u>197,049</u></b>	<u>152,750</u>
<b>ATTRIBUTABLE TO:</b>		
Owners of the Bank	<b><u>197,049</u></b>	<u>152,750</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
	Notes		
<b>ASSETS</b>			
Cash and short term placements	12	3,819,039	3,949,578
Placements with banks and financial institutions maturing after one month but not more than twelve months	13	622,967	873,951
Derivative financial instruments	27	9,988	317
Loans and advances and receivables	14	26,494,645	26,944,121
Available-for-sale financial assets	15	6,804	6,804
Held-to-maturity investments	16	5,009,515	4,556,217
Interests in a jointly-controlled entity		1,513	1,513
Deferred tax assets		30,731	36,421
Tax recoverable		7,781	12,607
Intangible assets	18	718	718
Property and equipment	19	61,790	65,849
Land held under finance leases	20	103,102	104,733
Investment properties	21	65,178	63,564
Goodwill		242,342	242,342
Other assets	17	142,985	138,696
<b>TOTAL ASSETS</b>		<b>36,619,098</b>	<b>36,997,431</b>
<b>EQUITY AND LIABILITIES</b>			
<b>LIABILITIES</b>			
Deposits and balances of banks and other financial institutions at amortised cost		806,508	538,296
Derivative financial instruments	27	31,208	135
Customer deposits at amortised cost	22	28,017,911	29,412,992
Certificates of deposit issued at amortised cost		1,254,755	649,833
Unsecured bank loans at amortised cost	23	798,846	797,061
Current tax payable		32,727	18,307
Deferred tax liabilities		6,278	8,326
Other liabilities		307,960	329,065
<b>TOTAL LIABILITIES</b>		<b>31,256,193</b>	<b>31,754,015</b>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK</b>			
Issued capital		1,481,600	1,481,600
Reserves	24	3,881,305	3,761,816
<b>TOTAL EQUITY</b>		<b>5,362,905</b>	<b>5,243,416</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>36,619,098</b>	<b>36,997,431</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
<b>TOTAL EQUITY</b>		
Balance at the beginning of the period	5,243,416	5,061,159
Profit for the period	187,496	158,670
Other comprehensive income	9,553	(5,920)
Total comprehensive income for the period	197,049	152,750
Dividends paid in respect of previous year	(77,560)	(78,451)
Balance at the end of the period	5,362,905	5,135,458

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
<b>NET CASH FLOWS FROM:</b>		
<b>OPERATING ACTIVITIES</b>	<b>(825,825)</b>	<b>(389,577)</b>
<b>INVESTING ACTIVITIES</b>	<b>(5,398)</b>	<b>(10,270)</b>
<b>FINANCING ACTIVITIES</b>	<b>(75,775)</b>	<b>(77,066)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(906,998)</b>	<b>(476,913)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>5,459,437</b>	<b>7,691,700</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>4,552,439</b>	<b>7,214,787</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and short term placements repayable on demand	<b>673,769</b>	665,942
Money at call and short notice with an original maturity within three months	<b>3,145,270</b>	3,866,737
Placements with banks and financial institutions with an original maturity within three months	<b>281,163</b>	537,581
Held-to-maturity investments with an original maturity within three months	<b>452,237</b>	2,144,527
	<b>4,552,439</b>	<b>7,214,787</b>

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in compliance with the Banking (Disclosure) Rules (“BDR”) issued by the Hong Kong Monetary Authority (the “HKMA”).

The 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 Group's 2012 Annual Report.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's 2012 Annual Report, except for the changes in accounting policies as set out in note 4 below.

### 2. BASIS OF CONSOLIDATION

The interim condensed consolidated financial statements comprise the interim financial statements of the Bank and its subsidiaries as at and for the period ended 30 June 2013. The interim financial statements of the subsidiaries and a jointly-controlled entity are prepared for the same reporting period as the Group, using consistent accounting policies.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full on consolidation.

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

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

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

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 2. BASIS OF CONSOLIDATION (Continued)

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

The subsidiaries consolidated for accounting purposes are as follows:

Name	30 June 2013		Principal activities
	Total Assets (Unaudited) HK\$	Total Equity (Unaudited) HK\$	
Public Financial Securities Limited	123,116,683	47,893,278	Securities brokerage
Public Bank (Nominees) Limited	100,000	100,000	Provision of nominee services
Public Investments Limited	200	200	Dormant
Public Realty Limited	99,208	99,208	Dormant
Public Credit Limited	2,460,504	2,460,504	Dormant
Public Futures Limited	1	1	Dormant
Public Pacific Securities Limited	4,945,389	3,424,499	Dormant
Public Finance Limited *	5,612,140,802	1,520,938,587	Deposit-taking and financing
Public Financial Limited	10,101,371	10,101,371	Investment holding
Public Securities Limited	169,868,806	139,230,291	Securities brokerage
Public Securities (Nominees) Limited	1,019,141	1,001,380	Provision of nominee services

\* Financial entity specified by the HKMA to form the basis of consolidation for regulatory reporting purpose in respect of capital adequacy ratio and liquidity ratio.



## NOTES TO INTERIM FINANCIAL STATEMENTS

### 3. BASIS OF CAPITAL DISCLOSURES

The Group has complied with the capital requirements during the interim reporting period related to capital base and the capital adequacy ratio as stipulated by the HKMA, and has also complied with the Guideline on the Application of the BDR issued by the HKMA.

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

The computation of the consolidated capital adequacy ratio of the Group is based on the ratio of the aggregate of risk weighted exposures to the aggregate of capital bases of the Bank and Public Finance for regulatory reporting 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 Securities Limited and Public Financial Securities Limited should satisfy the minimum requirements of the Securities and Futures (Financial Resources) Rules issued by the Securities and Futures Commission of Hong Kong.

A portion of retained profits, based on a percentage of gross loans and advances, is set aside as a non-distributable regulatory reserve as part of Common Equity Tier 1 ("CET1") capital and is included in the capital base pursuant to the HKMA capital requirements.

With effect from 1 January 2013, the Group has adopted the provisions of the Banking (Amendment) Ordinance 2012 relating to the Basel III capital standards and the amended Banking (Capital) Rules (the "Capital Rules"). The Capital Rules outline the general requirements on regulatory capital adequacy ratios, the components of eligible regulatory capital as well as the levels of those ratios at which banking institutions are required to operate. The Capital Rules have been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision. Under the Capital Rules, the minimum capital adequacy ratios are progressively increased from 1 January 2013 to 1 January 2019, and include a phased introduction of a new capital conservation buffer of 2.5%. Additional capital requirements, including a new counter-cyclical buffer ranging from 0% to 2.5%, will be detailed at a later stage.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 4. ACCOUNTING POLICIES

#### Changes in accounting policies and disclosures

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), which are generally effective for accounting periods beginning on or after 1 January 2013. The Group has adopted the following new and revised HKFRSs issued up to 30 June 2013 which are pertinent to its operations and relevant to these interim financial statements.

- HKFRS 1 Amendments                      Amendments to HKFRS 1 *First Time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
- HKFRS 7 Amendments                      Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
- HKFRS 10                                      *Consolidated Financial Statements*
- HKFRS 11                                      *Joint Arrangements*
- HKFRS 12                                      *Disclosure of Interests in Other Entities*
- HKFRS 10, HKFRS 11 and                      Amendments to HKFRS 10, HKFRS 11 and  
    HKFRS 12 Amendments                      HKFRS 12 – *Transition Guidance*
- HKFRS 13                                      *Fair Value Measurement*
- HKAS 1 Amendments                      *Presentation of Financial Statements –  
    Presentation of Items of Other Comprehensive  
    Income (“OCI”)*
- HKAS 19 (2011)                              *Employee Benefits*
- HKAS 27 (2011)                              *Separate Financial Statements*
- HKAS 28 (2011)                              *Investments in Associates and Joint Ventures*
- HK(IFRIC)-Int 20                              *Stripping Costs in the Production Phase of a  
    Surface Mine*
- Annual Improvements 2009-2011                      Amendments to a number of HKFRSs issued in  
    Cycle    June 2012

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

HKFRS 7 Amendments require an entity to disclose information about rights to set-off financial instrument and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The amendments do not have any material financial impact on the Group.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 4. ACCOUNTING POLICIES (Continued)

#### **Changes in accounting policies and disclosures (Continued)**

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 *Consolidated and Separate Financial Statements* and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. The amendments do not have any material financial impact on the Group.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group adopted HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e. joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The application of this new standard has no material financial impact on the Group.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period require that they are provided. Accordingly, the Group has not made such disclosures.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10, provide further relief from full retrospective application of these standards, and limit the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied. These amendments have no material impact on the Group.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use has already been required or permitted under other HKFRSs. The application of this new standard has no material financial impact on the Group.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 4. ACCOUNTING POLICIES (Continued)

#### Changes in accounting policies and disclosures (Continued)

HKAS 1 Amendments introduce a grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g. net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (e.g. actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments do not have any material impact on the Group.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The application of this new standard does not have any material impact on the Group.

Annual Improvements 2009-2011 Cycle issued in June 2012 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has a significant financial impact on the Group:

- (a) *HKAS 1 Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The voluntary additional comparative information does not need to be presented in a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies, makes retrospective restatements or makes reclassifications, and such change or action has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- (b) *HKAS 16 Property, Plant and Equipment*: Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventories.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 4. ACCOUNTING POLICIES (Continued)

#### Changes in accounting policies and disclosures (Continued)

- (c) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders. The amendment does not have an impact on the interim condensed consolidated financial statements of the Group as there is no tax consequences attached to cash or non cash distribution.
- (d) HKAS 34 *Interim Financial Reporting*: Clarifies the requirements in HKAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in HKFRS 8 *Operating Segments*.

Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment.

#### Impact of issued but not yet effective HKFRSs

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

- |  |   |
|--|---|
| • HKFRS 9  | <i>Financial Instruments</i> <sup>2</sup>   |
| • HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments | Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i> <sup>1</sup>   |
| • HKAS 32 Amendments                               | Amendments to HKAS 32 <i>Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities</i> <sup>1</sup> |
| • HKAS 36 Amendments                               | <i>Impairment of Assets</i> <sup>1</sup>  |
| • HK(IFRIC)-Int 21                                 | <i>Levies</i> <sup>1</sup>  |

<sup>1</sup> effective for annual periods beginning on or after 1 January 2014

<sup>2</sup> effective for annual periods beginning on or after 1 January 2015

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.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 4. ACCOUNTING POLICIES (Continued)

#### Impact of issued but not yet effective HKFRSs (Continued)

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the “Additions”) and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to 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 OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9, rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Bank is not an investment entity as defined in HKFRS 10 upon adoption on 1 January 2014.

HKAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to set-off” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

Subsequent to the issuance of HKFRS 13 *Fair Value Measurement*, an amendment has been made to HKAS 36 *Impairment of Assets* which requires the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

HK(IFRIC)-Int 21 *Levies* addresses how an entity should account for liabilities to pay for levies imposed by governments, other than income taxes, in its financial statements. The principal question raised is about when the entity should recognise a liability to pay a levy. The interpretation is not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 5. SEGMENT INFORMATION

#### **Operating segment information**

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

- the retail and commercial banking businesses segment mainly comprises the provision of deposit account services, the extension of mortgages and consumer lending, hire purchase and leasing, provision of financing to purchasers of licensed public vehicles such as taxis and public light buses, provision of services and financing activities for customers in trading, manufacturing and various business sectors, foreign exchange activities, centralised cash management for deposit taking and lending, interest rate risk management and the overall funding management of the Group;
- the wealth management services, stockbroking and securities management segment comprises management of investments in debt securities and equities, securities dealing and receipt of commission income and the provision of authorised wealth management products and services; and
- other businesses segments comprise the letting of investment properties.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 5. SEGMENT INFORMATION (Continued)

#### Operating segment information (Continued)

The following table represents revenue and profit information for operating segments for the six months ended 30 June 2013 and 2012.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	For the six months ended 30 June 2013		For the six months ended 30 June 2012		For the six months ended 30 June 2013		For the six months ended 30 June 2012	
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
<b>Segment revenue</b>								
Net interest income	662,436	603,364	48	(47)	-	-	662,484	603,317
Other operating income:								
Fees and commission income	70,563	72,280	28,617	23,410	-	-	99,180	95,690
Others	6,405	7,297	(1)	(13)	3,599	3,312	10,003	10,596
Operating income	739,404	682,941	28,664	23,350	3,599	3,312	771,667	709,603
<b>Profit before tax</b>	212,675	179,058	12,352	6,845	4,270	5,983	229,297	191,886
Tax							(41,801)	(33,216)
<b>Profit for the period</b>							187,496	158,670
<b>Other segment information</b>								
Depreciation of property and equipment and land held under finance leases	(11,975)	(12,123)	-	-	-	-	(11,975)	(12,123)
Change in fair value of investment properties	-	-	-	-	1,614	3,572	1,614	3,572
Impairment allowances for loans and advances and receivables	(160,753)	(154,221)	-	-	-	-	(160,753)	(154,221)
Net losses on disposal of property and equipment	(33)	(51)	-	-	-	-	(33)	(51)

The following table represents certain assets and liabilities information regarding operating segments as at 30 June 2013 and 31 December 2012.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	30 June 2013	31 December 2012	30 June 2013	31 December 2012	30 June 2013	31 December 2012	30 June 2013	31 December 2012
	(Unaudited) HK\$'000	(Audited) HK\$'000	(Unaudited) HK\$'000	(Audited) HK\$'000	(Unaudited) HK\$'000	(Audited) HK\$'000	(Unaudited) HK\$'000	(Audited) HK\$'000
Segment assets other than interest in a jointly-controlled entity,								
intangible assets and goodwill	35,975,566	36,347,804	295,269	292,462	65,178	63,564	36,336,013	36,703,830
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
	36,219,421	36,591,659	295,987	293,180	65,178	63,564	36,580,586	36,948,403
Unallocated assets:								
Deferred tax assets and tax recoverable							38,512	49,028
<b>Total assets</b>							36,619,098	36,997,431
Segment liabilities	31,107,290	31,611,340	106,121	113,085	3,777	2,957	31,217,188	31,727,382
Unallocated liabilities:								
Deferred tax liabilities and tax payable							39,005	26,633
<b>Total liabilities</b>							31,256,193	31,754,015
<b>Other segment information</b>								
Additions to non-current assets – capital expenditure	6,337	23,898	-	-	-	-	6,337	23,898



## NOTES TO INTERIM FINANCIAL STATEMENTS

### 5. SEGMENT INFORMATION (Continued)

#### Geographical information

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

The following table represents segment revenue information for geographical segments for the six months ended 30 June 2013 and 2012.

	For the six months ended	
	30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Segment revenue from external customers:		
Hong Kong	731,804	671,763
Mainland China	39,863	37,840
	<b>771,667</b>	<b>709,603</b>

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

The following table represents non-current assets information for geographical segments as at 30 June 2013 and 31 December 2012.

	30 June	31 December
	2013	2012
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Non-current assets:		
Hong Kong	456,733	460,081
Mainland China	17,910	18,638
	<b>474,643</b>	<b>478,719</b>

Non-current assets consist of investment properties, property and equipment, land held under finance leases, interest in a jointly-controlled entity, goodwill and intangible assets.

#### Operating income or revenue from major customers

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

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 6. INTEREST INCOME AND EXPENSE

	For the six months ended	
	30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income from:		
Loans and advances and receivables	760,301	738,209
Short term placements and placements with banks	26,672	33,310
Held-to-maturity investments	23,326	26,003
	<b>810,299</b>	<b>797,522</b>
Interest expense on:		
Deposits from banks and financial institutions	1,844	8,347
Deposits from customers	139,411	179,881
Bank loans	6,560	5,977
	<b>147,815</b>	<b>194,205</b>

Interest income and interest expense for the six months ended 30 June 2013, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss, amounted to HK\$810,299,000 and HK\$147,815,000 (2012: HK\$797,522,000 and HK\$194,205,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2013 amounted to HK\$4,952,000 (2012: HK\$3,331,000).

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 7. OTHER OPERATING INCOME

	For the six months ended	
	30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Fees and commission income:		
Retail and commercial banking	71,377	72,923
Wealth management services, stockbroking and securities management	28,617	23,410
	99,994	96,333
Less: Fees and commission expenses	(814)	(643)
Net fees and commission income	99,180	95,690
Gross rental income	3,619	3,330
Less: Direct operating expenses	(20)	(18)
Net rental income	3,599	3,312
Gains less losses arising from dealing in foreign currencies	4,549	4,738
Dividend income from listed investments	20	12
Dividend income from unlisted investments	900	1,000
Net losses on disposal of property and equipment	(33)	(51)
Others	968	1,585
	<b>109,183</b>	<b>106,286</b>

Direct operating expenses included 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, financial assets and financial liabilities designated at fair value through profit or loss for the six months ended 30 June 2013 and 2012.

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 INTERIM FINANCIAL STATEMENTS

### 8. OPERATING EXPENSES

	For the six months ended	
	30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Staff costs:		
Salaries and other staff costs	203,136	184,041
Pension contributions	10,081	9,174
Less: Forfeited contributions	(11)	(16)
Net contribution to retirement benefit schemes	10,070	9,158
	213,206	193,199
Other operating expenses:		
Operating lease rentals on leasehold buildings	29,296	27,050
Depreciation of property and equipment and land held under finance leases	11,975	12,123
Administrative and general expenses	36,283	32,602
Others	92,471	102,094
Operating expenses before changes in fair value of investment properties	383,231	367,068

At 30 June 2013 and 2012, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The current period credits arose in respect of staff who left the schemes during the period.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 9. IMPAIRMENT ALLOWANCES

	For the six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Net charge for/(write-back of) impairment losses and allowances:		
- loans and advances	160,427	154,232
- trade bills, accrued interest and receivables	326	(11)
	<u>160,753</u>	<u>154,221</u>
Net charge for/(write-back of) impairment losses and allowances:		
- individually assessed	158,608	155,304
- collectively assessed	2,145	(1,083)
	<u>160,753</u>	<u>154,221</u>
Of which:		
- new impairment losses and allowances (including any amount directly written off during the period)	261,332	258,004
- releases and recoveries	(100,579)	(103,783)
	<u>160,753</u>	<u>154,221</u>
Net charge to the consolidated income statement	<u>160,753</u>	<u>154,221</u>

There were no impairment allowances for financial assets other than loans and advances and receivables for the six months ended 30 June 2013 and 2012.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 10. TAX

	For the six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Current tax charge :		
Hong Kong	31,013	27,358
Overseas	7,285	6,910
(Over-provision)/under-provision in prior periods	(139)	11,043
Deferred tax charge/(credit), net	3,642	(12,095)
	<b>41,801</b>	<b>33,216</b>

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the 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 2013 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<b>187,530</b>		<b>41,767</b>		<b>229,297</b>	
Tax at the applicable tax rate	30,943	16.5	10,442	25.0	41,385	18.0
Estimated tax effect of net expenses that are not deductible	489	0.3	68	0.2	557	0.2
Estimated tax losses from previous periods utilised	(2)	-	-	-	(2)	-
Adjustments in respect of current tax of previous periods	(185)	(0.1)	46	0.1	(139)	-
Tax charge at the Group's effective rate	<b>31,245</b>	<b>16.7</b>	<b>10,556</b>	<b>25.3</b>	<b>41,801</b>	<b>18.2</b>

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 10. TAX (Continued)

	For the six months ended 30 June 2012					
	(Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>162,809</u>		<u>29,077</u>		<u>191,886</u>	
Tax at the applicable tax rate	26,863	16.5	7,269	25.0	34,132	17.8
Estimated tax effect of net income that are not taxable	(777)	(0.5)	(181)	(0.6)	(958)	(0.5)
Estimated tax losses from previous periods utilised	(1)	-	-	-	(1)	-
Adjustments in respect of deferred tax of previous periods	(11,000)	(6.8)	-	-	(11,000)	(5.7)
Adjustments in respect of current tax of previous periods	11,043	6.8	-	-	11,043	5.7
Tax charge at the Group's effective rate	<u>26,128</u>	16.0	<u>7,088</u>	24.4	<u>33,216</u>	17.3

### 11. DIVIDENDS

	For the six months ended 30 June			
	2013 (Unaudited) HK\$ per ordinary share	2012 (Unaudited) HK\$ per ordinary share	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Interim	<b>5.989</b>	5.203	<b>88,733</b>	77,088
Special	<b>37.122</b>	-	<b>550,000</b>	-
	<u><b>43.111</b></u>	5.203	<u><b>638,733</b></u>	77,088

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 11. DIVIDENDS (Continued)

On 15 July 2013, the Board of Directors declared an interim dividend of HK\$5.989 per ordinary share totaling HK\$88,733,024 together with special dividend of HK\$37.122 per ordinary share totaling HK\$549,999,552.

On 20 February 2013, a dividend of HK\$5.2349 per ordinary share totaling HK\$77,560,278 was paid to shareholder as the final dividend for 2012.

On 17 February 2012, a dividend of HK\$5.2950 per ordinary share totaling HK\$78,450,720 was paid to shareholder as the final dividend for 2011.

### 12. CASH AND SHORT TERM PLACEMENTS

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Cash on hand	129,760	130,063
Placements with banks and financial institutions	544,009	576,600
Money at call and short notice	3,145,270	3,242,915
	<b>3,819,039</b>	<b>3,949,578</b>

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

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

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

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Placements with banks and financial institutions	622,967	873,951

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

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



## NOTES TO INTERIM FINANCIAL STATEMENTS

### 14. LOANS AND ADVANCES AND RECEIVABLES

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Loans and advances to customers	<b>26,500,307</b>	26,919,507
Trade bills	<b>60,456</b>	82,066
Loans and advances, and trade bills	<b>26,560,763</b>	27,001,573
Accrued interest	<b>81,347</b>	88,972
Other receivables	<b>26,642,110</b> <b>2,249</b>	27,090,545 5,107
Gross loans and advances and receivables	<b>26,644,359</b>	27,095,652
Less: Impairment allowances for loans and advances and receivables		
- individually assessed	<b>(119,941)</b>	(124,137)
- collectively assessed	<b>(29,773)</b>	(27,394)
	<b>(149,714)</b>	(151,531)
Loans and advances and receivables	<b>26,494,645</b>	26,944,121

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

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

Loans and advances and receivables are summarised as follows:

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Neither past due nor impaired loans and advances and receivables	<b>26,057,974</b>	26,407,606
Past due but not impaired loans and advances and receivables	<b>424,776</b>	444,810
Individually impaired loans and advances	<b>158,002</b>	227,341
Individually impaired receivables	<b>3,607</b>	15,895
Total loans and advances and receivables	<b>26,644,359</b>	27,095,652

About 66% of “Neither past due nor impaired loans and advances and receivables” were residential property mortgage loans, commercial property mortgage loans and hire purchase loans secured by customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2013 (Unaudited)		31 December 2012 (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	91,129	0.34	93,612	0.35
One year or less but over six months	7,333	0.03	3,299	0.01
Over one year	18,863	0.07	90,730	0.34
Loans and advances overdue for more than three months	117,325	0.44	187,641	0.70
Rescheduled loans and advances overdue for three months or less	32,381	0.13	34,400	0.13
Impaired loans and advances overdue for three months or less	8,296	0.03	5,300	0.02
Total overdue and impaired loans and advances	158,002	0.60	227,341	0.85

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	75	116
One year or less but over six months	198	63
Over one year	<u>3,286</u>	<u>15,715</u>
Trade bills, accrued interest and other receivables overdue for more than three months	3,559	15,894
Impaired trade bills, accrued interest and other receivables overdue for three months or less	<u>48</u>	<u>1</u>
Total overdue and impaired trade bills, accrued interest and other receivables	<u>3,607</u>	<u>15,895</u>

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 INTERIM FINANCIAL STATEMENTS

### 14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2013 (Unaudited)			31 December 2012 (Audited)		
	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
<b>(i) Analysis of overdue loans and advances and receivables</b>						
Loans and advances and receivables overdue for more than three months	<b>98,081</b>	<b>22,803</b>	<b>120,884</b>	97,376	106,159	203,535
Individual impairment allowances	<b>77,064</b>	<b>17,354</b>	<b>94,418</b>	68,815	30,961	99,776
Current market value and fair value of collateral			<b>35,361</b>			<b>238,992</b>
<b>(ii) Analysis of impaired loans and advances and receivables</b>						
Impaired loans and advances and receivables	<b>138,498</b>	<b>23,111</b>	<b>161,609</b>	137,077	106,159	243,236
Individual impairment allowances	<b>102,279</b>	<b>17,662</b>	<b>119,941</b>	93,176	30,961	124,137
Current market value and fair value of collateral			<b>45,010</b>			<b>242,715</b>

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

## NOTES TO INTERIM 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:

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	<b>35,361</b>	238,992
Covered portion of overdue loans and advances	<b>11,428</b>	78,063
Uncovered portion of overdue loans and advances	<b>105,897</b>	109,578

The assets taken as collateral should satisfy the following criteria:

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

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

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

#### (d) Repossessed assets

There was no repossessed asset of the Group as at 30 June 2013 and 31 December 2012.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2013 (Unaudited)		31 December 2012 (Audited)	
	Gross amount HK\$'000	Percentage of total loans and advances %	Gross amount HK\$'000	Percentage of total loans and advances %
Loans and advances overdue for three months or less	424,232	1.60	442,886	1.65
Trade bills, accrued interest and other receivables overdue for three months or less	544		1,924	

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	Individual impairment allowances HK\$'000	30 June 2013 (Unaudited) Collective impairment allowances HK\$'000	Total HK\$'000
At 1 January 2013	124,137	27,394	151,531
Amounts written off	(242,235)	-	(242,235)
Impairment losses and allowances charged to the consolidated income statement	257,812	3,520	261,332
Impairment losses and allowances released to the consolidated income statement	(99,204)	(1,375)	(100,579)
Net charge of impairment losses and allowances	158,608	2,145	160,753
Loans and advances and receivables recovered	79,264	-	79,264
Exchange difference	167	234	401
At 30 June 2013	119,941	29,773	149,714
Deducted from:			
Loans and advances	117,790	29,630	147,420
Trade bills, accrued interest and other receivables	2,151	143	2,294
	119,941	29,773	149,714



## NOTES TO INTERIM 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 2012		
	(Audited)		
	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000	Total HK\$'000
At 1 January 2012	165,813	29,796	195,609
Amounts written off	(528,561)	-	(528,561)
Impairment losses and allowances charged to the consolidated income statement	487,524	5,767	493,291
Impairment losses and allowances released to the consolidated income statement	(171,236)	(8,224)	(179,460)
Net charge/(release) of impairment losses and allowances	316,288	(2,457)	313,831
Loans and advances and receivables recovered	169,987	-	169,987
Exchange difference	610	55	665
At 31 December 2012	124,137	27,394	151,531
Deducted from:			
Loans and advances	122,330	27,233	149,563
Trade bills, accrued interest and other receivables	1,807	161	1,968
	124,137	27,394	151,531

## NOTES TO INTERIM 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 2013 (Unaudited)		31 December 2012 (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	381,180	288,062	390,236	297,359
In the second to fifth years, inclusive	1,088,028	793,456	1,086,308	797,512
Over five years	3,803,790	3,183,398	3,717,213	3,115,985
	<u>5,272,998</u>	<u>4,264,916</u>	5,193,757	<u>4,210,856</u>
Less: Unearned finance income	<u>(1,008,082)</u>		<u>(982,901)</u>	
Present value of minimum lease payments receivable	<u>4,264,916</u>		<u>4,210,856</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 INTERIM FINANCIAL STATEMENTS

### 15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Unlisted equity investments, at fair value:		
At the beginning of the period/year and the end of the period/year	<b>6,804</b>	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

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Certificates of deposit held	<b>1,521,749</b>	1,687,788
Treasury bills (including Exchange Fund Bills)	<b>1,734,968</b>	1,695,873
Other debt securities	<b>1,752,798</b>	1,172,556
	<b>5,009,515</b>	4,556,217
Listed or unlisted:		
- Listed in Hong Kong	<b>80,766</b>	42,156
- Unlisted	<b>4,928,749</b>	4,514,061
	<b>5,009,515</b>	4,556,217
Analysed by types of issuers:		
- Central government	<b>1,734,968</b>	1,695,873
- Banks and other financial institutions	<b>3,274,547</b>	2,860,344
	<b>5,009,515</b>	4,556,217

Impairment allowances of held-to-maturity investments were nil as at 30 June 2013 and 31 December 2012. There were no movements in impairment allowances for the period ended 30 June 2013 and for the year ended 31 December 2012.

There were neither impaired nor overdue held-to-maturity investments as at 30 June 2013 and 31 December 2012.

All 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 INTERIM FINANCIAL STATEMENTS

### 17. OTHER ASSETS

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Interest receivables from authorised institutions	6,655	5,089
Other debtors, deposits and prepayments	<u>136,330</u>	<u>133,607</u>
	<u><b>142,985</b></u>	<u>138,696</u>

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

### 18. INTANGIBLE ASSETS

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Cost:		
At the beginning of the period/year and at the end of the period/year	<u>1,923</u>	<u>1,923</u>
Accumulated impairment:		
At the beginning of the period/year and at the end of the period/year	<u>1,205</u>	<u>1,205</u>
Net carrying amount:		
At the beginning of the period/year and at the end of the period/year	<u><b>718</b></u>	<u>718</u>

Intangible assets represent trading rights held by the Group. The trading rights are retained for stock trading and stockbroking activities, and have indefinite useful lives as the trading rights have no expiry date. They comprise five units (2012: five units) of Stock Exchange Trading Right and one unit (2012: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 19. PROPERTY AND EQUIPMENT

	Buildings (Unaudited) HK\$'000	Furniture, fixtures, equipment and motor vehicles (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Cost:			
At 1 January 2013	17,090	177,308	194,398
Additions	-	6,337	6,337
Disposals/write-off	-	(122)	(122)
At 30 June 2013	17,090	183,523	200,613
Accumulated depreciation:			
At 1 January 2013	5,327	123,222	128,549
Provided during the period	170	10,174	10,344
Disposals/write-off	-	(89)	(89)
Exchange difference	19	-	19
At 30 June 2013	5,516	133,307	138,823
Net carrying amount:			
At 30 June 2013	11,574	50,216	61,790
At 31 December 2012	11,763	54,086	65,849

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 19. PROPERTY AND EQUIPMENT (Continued)

	Buildings (Audited) HK\$'000	Furniture, fixtures, equipment and motor vehicles (Audited) HK\$'000	Total (Audited) HK\$'000
Cost:			
At 1 January 2012	17,090	164,550	181,640
Additions	-	23,898	23,898
Disposals/write-off	-	(11,140)	(11,140)
At 31 December 2012	17,090	177,308	194,398
Accumulated depreciation:			
At 1 January 2012	4,948	113,828	118,776
Provided during the year	369	20,395	20,764
Disposals/write-off	-	(11,001)	(11,001)
Exchange difference	10	-	10
At 31 December 2012	5,327	123,222	128,549
Net carrying amount:			
At 31 December 2012	11,763	54,086	65,849
At 31 December 2011	12,142	50,722	62,864

No valuation has been made for the above items of property and equipment for the period ended 30 June 2013 and for the year ended 31 December 2012.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 20. LAND HELD UNDER FINANCE LEASES

	<b>HK\$'000</b>
Cost:	
At 1 January 2012, 31 December 2012, 1 January 2013 (Audited) and 30 June 2013 (Unaudited)	<u><b>137,196</b></u>
Accumulated depreciation and impairment:	
At 1 January 2012	29,201
Depreciation provided during the year	<u>3,262</u>
At 31 December 2012 and 1 January 2013 (Audited)	<b>32,463</b>
Depreciation provided during the period	<u><b>1,631</b></u>
At 30 June 2013 (Unaudited)	<u><b>34,094</b></u>
Net carrying amount:	
At 30 June 2013 (Unaudited)	<u><b>103,102</b></u>
At 31 December 2012 (Audited)	<u><b>104,733</b></u>

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

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 21. INVESTMENT PROPERTIES

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Carrying amount at the beginning of the period/year	<b>63,564</b>	48,309
Changes in fair value	<b>1,614</b>	15,255
Carrying amount at the end of the period/year	<b>65,178</b>	63,564

At 30 June 2013, investment properties with a carrying amount of HK\$63,564,000 (31 December 2012: HK\$48,309,000) were revalued at HK\$65,178,000 (31 December 2012: HK\$63,564,000) according to revaluation reports issued by C S Surveyors Limited, a firm of independent professionally qualified valuers, on an open market value and existing use basis. The increase in fair value of HK\$1,614,000 (31 December 2012: HK\$15,255,000) 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 26(a) to the interim financial statements.

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



## NOTES TO INTERIM FINANCIAL STATEMENTS

### 22. CUSTOMER DEPOSITS AT AMORTISED COST

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Demand deposits and current accounts	<b>3,180,817</b>	2,025,048
Savings deposits	<b>3,779,301</b>	4,041,869
Time, call and notice deposits	<b>21,057,793</b>	23,346,075
	<b>28,017,911</b>	29,412,992

### 23. UNSECURED BANK LOANS AT AMORTISED COST

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Unsecured bank loans, repayable on demand or within a period not exceeding one year	<b>798,846</b>	797,061

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.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 24. RESERVES

	Share premium account HK\$'000	Group reconstruction reserve HK\$'000	Capital reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
At 1 January 2012	1,372,445	3,065	17,660	408,495	1,712,469	65,425	3,579,559
Profit for the year	-	-	-	-	332,150	-	332,150
Other comprehensive income	-	-	-	-	-	5,646	5,646
Transfer from retained profits	-	-	-	872	(872)	-	-
Dividends paid in respect of previous year	-	-	-	-	(78,451)	-	(78,451)
Dividends paid in respect of current year	-	-	-	-	(77,088)	-	(77,088)
At 31 December 2012 and 1 January 2013 (Audited)	<b>1,372,445</b>	<b>3,065</b>	<b>17,660</b>	<b>409,367</b>	<b>1,888,208</b>	<b>71,071</b>	<b>3,761,816</b>
Profit for the period	-	-	-	-	187,496	-	187,496
Other comprehensive income	-	-	-	-	-	9,553	9,553
Transfer to retained profits	-	-	-	(5,224)	5,224	-	-
Dividends paid in respect of previous year	-	-	-	-	(77,560)	-	(77,560)
At 30 June 2013 (Unaudited)	<b>1,372,445</b>	<b>3,065</b>	<b>17,660</b>	<b>404,143</b>	<b>2,003,368</b>	<b>80,624</b>	<b>3,881,305</b>

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 allowances were included as CET1 capital in the Group's capital base at 30 June 2013 as defined in the Guideline. The regulatory reserve was held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to the Guidelines from the HKMA.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 25. 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 2013 (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	72,824	72,824	65,071	-	-
Transaction-related contingencies	7,331	3,666	1,659	-	-
Trade-related contingencies	46,247	9,249	7,618	-	-
Forward forward deposits placed	147,765	147,765	29,553	-	-
Forward asset purchases	1,640	1,640	328	-	-
	<b>275,807</b>	<b>235,144</b>	<b>104,229</b>	<b>-</b>	<b>-</b>
Derivatives held for trading (Note 25(b)):					
Foreign exchange rate contracts	2,780,972	7,241	38	9,988	31,208
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	123,784	61,892	61,892	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to a deterioration in the creditworthiness of the counterparties	<b>3,728,378</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>6,908,941</b>	<b>304,277</b>	<b>166,159</b>	<b>9,988</b>	<b>31,208</b>
Capital commitments contracted for, but not provided in the statement of financial position	<b>2,952</b>				

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 25. OFF-BALANCE SHEET EXPOSURE (Continued)

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

31 December 2012

(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	200,808	200,808	52,922	-	-
Transaction-related contingencies	10,909	5,454	3,785	-	-
Trade-related contingencies	99,942	19,989	17,223	-	-
Forward forward deposits placed	74,218	74,218	14,844	-	-
Forward asset purchases	2,806	2,806	561	-	-
	388,683	303,275	89,335	-	-
Derivatives held for trading (Note 25(b)):					
Foreign exchange rate contracts	142,582	489	1	317	135
Other commitments with an original maturity of :					
Not more than one year	-	-	-	-	-
More than one year	181,353	90,676	90,676	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to a deterioration in the creditworthiness of the counterparties	3,242,637	-	-	-	-
	3,955,255	394,440	180,012	317	135
Capital commitments contracted for, but not provided in the statement of financial position	5,925				

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 25. OFF-BALANCE SHEET EXPOSURE (Continued)

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

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

As at 30 June 2013 and 31 December 2012, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

#### (b) Derivative financial instruments

The Group uses the following derivative financial instruments:

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

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

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

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 26. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

The Group leases its investment properties are shown in note 21 under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

At 30 June 2013 and 31 December 2012, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Within one year	<b>2,926</b>	1,984
In the second to fifth years, inclusive	<b>1,301</b>	1,212
	<b>4,227</b>	3,196

#### (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 2013 and 31 December 2012, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Within one year	<b>79,302</b>	56,168
In the second to fifth years, inclusive	<b>36,104</b>	26,705
	<b>115,406</b>	82,873

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 27. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	30 June 2013 (Unaudited)			31 December 2012 (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
<b>Financial assets</b>						
Cash and short term placements	3,819,039	3,819,039	-	3,949,578	3,949,578	-
Placements with banks and financial institutions maturing after one month but not more than twelve months	622,967	622,967	-	873,951	873,951	-
Derivative financial instruments	9,988	9,988	-	317	317	-
Loans and advances and receivables	26,494,645	26,494,645	-	26,944,121	26,944,121	-
Available-for-sale financial assets	6,804	6,804	-	6,804	6,804	-
Held-to-maturity investments	5,009,515	5,007,660	(1,855)	4,556,217	4,555,365	(852)
Other assets	142,985	142,985	-	138,696	138,696	-
<b>Financial liabilities</b>						
Deposits and balances of banks and other financial institutions at amortised cost	806,508	806,508	-	538,296	538,296	-
Derivative financial instruments	31,208	31,208	-	135	135	-
Customer deposits at amortised cost	28,017,911	28,017,911	-	29,412,992	29,412,992	-
Certificates of deposit issued at amortised cost	1,254,755	1,254,755	-	649,833	649,833	-
Unsecured bank loans at amortised cost	798,846	798,846	-	797,061	797,061	-
Other liabilities	307,960	307,960	-	329,065	329,065	-
<b>Total unrecognised loss</b>			<b>(1,855)</b>			<b>(852)</b>

#### (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 interim financial statements.

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

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

#### Fixed rate financial instruments

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

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 27. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

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

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

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

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

	30 June 2013 (Unaudited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets:				
Derivative financial instruments	-	9,988	-	9,988
Available-for-sale financial assets	-	-	6,804	6,804
	-	9,988	6,804	16,792
Financial liabilities:				
Derivative financial instruments	-	31,208	-	31,208
	31 December 2012 (Audited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets:				
Derivative financial instruments	-	317	-	317
Available-for-sale financial assets	-	-	6,804	6,804
	-	317	6,804	7,121
Financial liabilities:				
Derivative financial instruments	-	135	-	135



## NOTES TO INTERIM FINANCIAL STATEMENTS

### 27. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

During the six months ended 30 June 2013 and the year ended 31 December 2012, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

During the six months ended 30 June 2013 and the year ended 31 December 2012, there were no issues and settlements related to the Level 3 financial instruments.

There was no gain or loss and no other comprehensive income reported in consolidated income statement and consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the six months ended 30 June 2013 and the year ended 31 December 2012.

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

There were no financial assets and financial liabilities that offset against each other as at 30 June 2013 and 31 December 2012.

#### (c) Valuation techniques and processes

Level 2 financial instruments comprise forward foreign exchange contracts and currency swaps. These instruments have been measured at fair value based on the forward foreign exchange rates that are quoted in an active market. At 30 June 2013, the effects of discounting are considered insignificant for the Level 2 derivatives financial instruments.

Level 3 financial instruments are measured at fair value based on the present value cash flows over a period of 10 years.

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

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 28. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	30 June 2013 (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	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	
<b>Financial assets:</b>								
Cash and short term placements	673,769	3,145,270	-	-	-	-	-	3,819,039
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	319,077	303,890	-	-	-	622,967
Loans and advances and receivables	650,672	1,070,576	1,203,558	3,680,903	6,592,156	13,313,549	132,945	26,644,359
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	576,800	2,091,968	2,245,058	95,689	-	-	5,009,515
Other assets	77	99,002	3,376	1,029	-	-	39,501	142,985
Foreign exchange contracts (gross)	-	2,758,187	22,785	-	-	-	-	2,780,972
<b>Total financial assets</b>	<b>1,324,518</b>	<b>7,649,835</b>	<b>3,640,764</b>	<b>6,230,880</b>	<b>6,687,845</b>	<b>13,313,549</b>	<b>179,250</b>	<b>39,026,641</b>
<b>Financial liabilities:</b>								
Deposits and balances of banks and other financial institutions at amortised cost	55,909	630,599	70,000	50,000	-	-	-	806,508
Customer deposits at amortised cost	6,972,557	9,623,660	7,066,440	4,209,205	146,049	-	-	28,017,911
Certificates of deposit issued at amortised cost	-	449,995	-	804,760	-	-	-	1,254,755
Unsecured bank loans at amortised cost	-	-	-	798,846	-	-	-	798,846
Other liabilities	1,053	122,533	21,661	26,699	6,670	-	129,344	307,960
Foreign exchange contracts (gross)	-	2,778,759	23,433	-	-	-	-	2,802,192
<b>Total financial liabilities</b>	<b>7,029,519</b>	<b>13,605,546</b>	<b>7,181,534</b>	<b>5,889,510</b>	<b>152,719</b>	<b>-</b>	<b>129,344</b>	<b>33,988,172</b>
	31 December 2012 (Audited)							
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	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
<b>Financial assets:</b>								
Cash and short term placements	706,663	3,242,915	-	-	-	-	-	3,949,578
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	651,076	222,875	-	-	-	873,951
Loans and advances and receivables	617,568	1,040,684	1,191,846	3,514,015	6,920,961	13,635,252	175,326	27,095,652
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	1,103,708	1,052,681	2,343,085	56,743	-	-	4,556,217
Other assets	73	86,035	1,048	1,655	-	-	49,885	138,696
Foreign exchange contracts (gross)	-	116,591	5,068	20,923	-	-	-	142,582
<b>Total financial assets</b>	<b>1,324,304</b>	<b>5,589,933</b>	<b>2,901,719</b>	<b>6,102,553</b>	<b>6,977,704</b>	<b>13,635,252</b>	<b>232,015</b>	<b>36,763,480</b>
<b>Financial liabilities:</b>								
Deposits and balances of banks and other financial institutions at amortised cost	39,866	258,430	90,000	150,000	-	-	-	538,296
Customer deposits at amortised cost	6,245,604	9,568,395	9,375,385	3,808,813	414,795	-	-	29,412,992
Certificates of deposit issued at amortised cost	-	-	-	449,959	199,874	-	-	649,833
Unsecured bank loans at amortised cost	-	-	-	797,061	-	-	-	797,061
Other liabilities	83	115,870	22,317	26,435	12,452	-	151,908	329,065
Foreign exchange contracts (gross)	-	116,524	5,056	20,820	-	-	-	142,400
<b>Total financial liabilities</b>	<b>6,285,553</b>	<b>10,059,219</b>	<b>9,492,758</b>	<b>5,253,088</b>	<b>627,121</b>	<b>-</b>	<b>151,908</b>	<b>31,869,647</b>

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 29. 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, Risk Management Committee, Credit Risk Management Committee, Credit Committee, Assets and Liabilities Management Committee, Operational Risk Management Committee and other designated committees or working groups. Material risks are identified and assessed by designated committees and/or working groups before the launch of new products or business activities, and are monitored, documented and controlled against applicable risk limits after the introduction of new products or services or implementation of new business activities. Internal auditors of the Bank also perform regular audits to ensure compliance with the policies and procedures.

#### **Market risk management**

##### **(a) Interest rate risk**

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

### 29. 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 directors.

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

At 30 June 2013, if RMB had strengthened or weakened by 100 basis points against HKD with all other variables held constant, the Group's equity would have increased or decreased by HK\$6 million (31 December 2012: HK\$6 million) mainly as a result of foreign exchange impact arising from net structural position of RMB denominated operating capital.

##### (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 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 INTERIM FINANCIAL STATEMENTS

### 29. 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 are handled by an independent work-out team.

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and its capital resources. Its policy on connected lending exposures defines and states connected parties, statutory and applicable connected lending limits, types of connected transactions, the taking of collateral, the capital adequacy treatment 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 the established credit policies and procedures are complied with.

Compliance Department conducts compliance test audit at selected business units on identified high risk areas for adherence to regulatory and operational requirements and credit policies.

Credit Committees of the Bank and Public Finance monitor the quality of financial assets which are neither past due nor impaired by financial performance indicators (such as the loan-to-value ratio, debts servicing ratio, financial soundness of borrowers and personal guarantees) through meeting discussions, 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 Bank and Public Finance also monitor the quality of past due or impaired financial assets by internal grading comprising "substandard", "doubtful" and "loss" accounts through 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 INTERIM FINANCIAL STATEMENTS

### 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### **Credit risk management (Continued)**

Credit Risk Management Committee 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 customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

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

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

#### **Liquidity risk management**

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

Assets and Liabilities Management Committees of the Bank and Public Finance monitor the liquidity position as part of the ongoing 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 an 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 the monitoring and control of operational risk.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 29. 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 subordinated debts, if any. Finance and Control Department is responsible for monitoring the amount of the capital base and capital adequacy ratios against trigger limits and for risk exposures and ensuring compliance with relevant statutory limits, taking into account business growth, dividend payout and other relevant factors.

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

#### Capital adequacy ratios

With effect from 1 January 2013, the capital adequacy ratios of the Group are computed in accordance with the provisions of the Banking (Amendment) Ordinance 2012 relating to Basel III capital standards and the amended the Capital Rules. As a result, the capital ratios shown for 30 June 2013 are not directly comparable to those of 31 December 2012. The Group and the Bank have adopted the standardised approach for the calculation of credit risk-weighted exposures and market risk-weighted exposures and adopted the basic indicator approach to calculate operational risk-weighted exposures for the period ended 30 June 2013 and the year ended 31 December 2012. The capital adequacy ratios of the Group of 31 December 2012 were based on the Basel II capital accord.

The capital ratios and relevant comparatives are set out in the table below.

	<b>Basel III</b> <b>30 June 2013</b> <b>(Unaudited)</b>	<b>Basel II</b> <b>31 December 2012</b> <b>(Audited)</b>
Group:		
Consolidated CET1 Capital Ratio	<b>19.1%</b>	N/A
Consolidated Tier 1 Capital Ratio	<b>19.1%</b>	18.5%
Consolidated Total Capital Ratio	<b>20.2%</b>	19.6%
Bank:		
CET1 Capital Ratio	<b>16.1%</b>	N/A
Tier 1 Capital Ratio	<b>16.1%</b>	16.4%
Total Capital Ratio	<b>17.2%</b>	16.4%

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

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Capital disclosures

The Basel III enhancement has changed the composition of the capital calculation. The new composition is not comparable to the previous Basel II calculation, hence comparative figures are not provided. Prior period figures under the Basel II rules are shown in a separate table.

The components of total capital base under Basel III include the following items:

#### Group

	<b>30 June 2013 (Unaudited) HK\$'000</b>
CET1 capital instruments	1,481,600
Share premium	1,372,445
Retained earnings	1,909,409
Disclosed reserves	<u>488,427</u>
<b>CET1 CAPITAL BEFORE DEDUCTION</b>	<b>5,251,881</b>
Deduct:	
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	(22,337)
Regulatory reserve for general banking risk	(404,143)
Goodwill	(242,342)
Deferred tax assets in excess of deferred tax liabilities	(23,150)
Direct holdings of CET1 capital instruments issued by a financial sector entity that is a member of the institution's consolidation group	<u>-</u>
<b>CET1 CAPITAL AFTER DEDUCTION</b>	<b><u>4,559,909</u></b>
<b>ADDITIONAL TIER 1 CAPITAL</b>	<b><u>-</u></b>
<b>TIER 1 CAPITAL AFTER DEDUCTIONS</b>	<b><u>4,559,909</u></b>
Reserve attributable to fair value gains	10,052
Regulatory reserve for general banking risk	<u>234,581</u>
Collective provisions	<u>29,773</u>
	<u>264,354</u>
<b>TIER 2 CAPITAL</b>	<b><u>274,406</u></b>
<b>CAPITAL BASE</b>	<b><u>4,834,315</u></b>



## NOTES TO INTERIM FINANCIAL STATEMENTS

### 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Capital disclosures (Continued)

#### Bank

	30 June 2013 (Unaudited) HK\$'000
CET1 capital instruments	1,481,600
Share premium	1,372,445
Retained earnings	1,951,016
Disclosed reserves	<u>401,349</u>
<b>CET1 CAPITAL BEFORE DEDUCTION</b>	<b>5,206,410</b>
Deduct:	
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	(18,063)
Regulatory reserve for general banking risk	(317,065)
Goodwill	-
Deferred tax assets in excess of deferred tax liabilities	(11,674)
Direct holdings of CET1 capital instruments issued by a financial sector entity that is a member of the institution's consolidation group	<u>(1,699,998)</u>
<b>CET1 CAPITAL AFTER DEDUCTION</b>	<b><u>3,159,610</u></b>
<b>ADDITIONAL TIER 1 CAPITAL</b>	<b><u>-</u></b>
<b>TIER 1 CAPITAL AFTER DEDUCTIONS</b>	<b><u>3,159,610</u></b>
Reserve attributable to fair value gains	8,128
Regulatory reserve for general banking risk	<u>210,244</u>
Collective provisions	<u>11,850</u>
	<u>222,094</u>
<b>TIER 2 CAPITAL</b>	<b><u>230,222</u></b>
<b>CAPITAL BASE</b>	<b><u>3,389,832</u></b>

Capital adequacy ratios at 30 June 2013 were compiled on both solo basis and consolidated basis in accordance with the Capital Rules and Section 97C of the Banking Ordinance for the implementation of the "Basel III" capital accord. The subsidiary consolidated into capital base and risk weighted exposures is Public Finance.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Capital disclosures (Continued)

The components of total capital base under Basel II include the following items:

	Group 31 December 2012 (Audited) HK\$'000	Bank 31 December 2012 (Audited) HK\$'000
Core capital:		
Paid up ordinary share capital	1,481,600	1,481,600
Share premium account	1,372,445	1,372,445
Published reserves	1,709,052	1,748,225
Income statement	168,488	167,322
Deduct:		
Goodwill	(242,342)	-
Net deferred tax assets	(26,792)	(14,867)
Core capital before deductions	4,462,451	4,754,725
Less: Deductions from shareholdings in subsidiaries	(33,054)	(877,999)
Other deductions	(22,653)	(678,769)
Total core capital after deductions	4,406,744	3,197,957
Supplementary capital:		
Regulatory reserve	271,725	234,034
Collective impairment allowances	27,394	10,500
Supplementary capital before deductions	299,119	244,534
Less: Deductions from shareholdings in subsidiaries	(33,054)	(221,881)
Other deductions	(22,653)	(22,653)
Total supplementary capital after deductions	243,412	-
Capital base	4,650,156	3,197,957

Capital adequacy ratios at 31 December 2012 were compiled on both solo basis and consolidated basis in accordance with the Capital Rules and Section 98A of the Banking Ordinance for the implementation of the "Basel II" capital accord. The subsidiary consolidated into capital base and risk weighted exposures is Public Finance.

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

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Capital disclosures (Continued)

#### Capital instruments

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

**30 June  
2013  
(Unaudited)  
HK\$'000**

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#### CET1 capital instruments issued by the Bank

Ordinary shares:

14,816,000 issued and fully paid ordinary shares of HK\$100 each	<u><b>1,481,600</b></u>
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#### Additional information

To comply with the BDR, the Group will establish a new section on "Regulatory Disclosure" on its website to present all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group's published financial statements.

The disclosure will be published in our website: [www.publicbank.com.hk](http://www.publicbank.com.hk) on or before 30 September 2013 according to the BDR and will include the following information:

- A description of the main features and the full terms and conditions of the Group's capital instruments;
- A detailed breakdown of the Group's CET1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions, using the standard disclosure template as specified by the HKMA; and
- A full reconciliation between the Group's accounting and regulatory balance sheets, using the standard disclosure template as specified by the HKMA.

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

### ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

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

	30 June 2013								
	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	534,669	266	2	109	-	344,667	64.5	795	795
Building and construction, property development and investment									
Property development	432,619	171	-	-	-	281,020	65.0	-	-
Property investment	6,291,427	2,492	-	23	-	5,844,859	92.9	3,122	3,122
Civil engineering works	116,028	52	-	12	-	29,080	25.1	-	-
Electricity and gas	846	-	-	-	-	790	93.4	-	-
Recreational activities	2,896	1	-	-	-	2,875	99.3	-	-
Information technology	29,633	12	-	248	247	1,308	4.4	-	-
Wholesale and retail trade	181,218	107	-	538	617	157,934	87.2	-	-
Transport and transport equipment	4,256,432	1,497	264	114	97	4,211,463	98.9	264	169
Hotels, boarding houses and catering	65,570	26	-	-	-	61,543	93.9	-	-
Financial concerns	256,500	102	-	30	-	148,011	57.7	-	-
Stockbrokers									
Margin lending	156,600	62	-	49	-	46,600	29.8	-	-
Others	3,764	1	-	-	-	764	20.3	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	23,006	9	-	-	-	4,450	19.3	-	-
Others	19,210	8	-	2	-	19,210	100.0	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	118,591	47	-	-	-	118,591	100.0	487	-
Loans for the purchase of other residential properties	7,351,794	2,693	535	653	-	7,350,738	100.0	2,254	-
Loans for credit card advances	13,374	5	36	52	67	-	-	36	22
Loans for other business purposes	17,920	7	-	5	-	17,920	100.0	-	-
Loans for other private purposes	3,835,097	17,920	90,302	242,856	241,207	164,621	4.3	131,282	93,749
Trade finance	668,229	265	-	10,630	-	571,631	85.5	-	-
Other loans and advances	90,952	36	-	-	-	76,413	84.0	-	-
Sub-total	24,466,375	25,779	91,139	255,321	242,235	19,454,488	79.5	138,240	97,857
Loans and advances for use outside Hong Kong	2,033,932	3,851	26,651	5,615	-	1,517,958	74.6	19,762	19,468
Total loans and advances (excluding trade bills and other receivables)	26,500,307	29,630	117,790	260,936	242,235	20,972,446	79.1	158,002	117,325

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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

	31 December 2012									
	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	365,808	159	-	729	1,005	298,970	81.7	-	-	
Building and construction, property development and investment										
Property development	504,755	189	-	-	-	245,758	48.7	-	-	
Property investment	6,611,472	2,469	-	-	-	6,010,790	90.9	-	-	
Civil engineering works	112,887	40	-	-	-	23,520	20.8	-	-	
Electricity and gas	81	-	-	-	-	-	-	-	-	
Recreational activities	3,838	1	-	-	-	3,807	99.2	-	-	
Information technology	30,000	11	-	-	-	1,414	4.7	-	-	
Wholesale and retail trade	188,894	82	104	196	78	164,504	87.1	148	148	
Transport and transport equipment	4,178,801	1,383	391	57	68	4,154,635	99.4	494	285	
Hotels, boarding houses and catering	350,981	131	-	-	-	51,508	14.7	-	-	
Financial concerns	193,409	72	-	-	-	78,432	40.6	-	-	
Stockbrokers										
Margin lending	34,917	13	-	13	-	32,417	92.8	-	-	
Others	11,221	4	-	4	-	1,221	10.9	-	-	
Non-stockbroking companies and individuals for the purchase of shares										
Margin lending	23,247	9	-	-	-	4,875	21.0	-	-	
Others	15,622	6	-	-	-	14,624	93.6	-	-	
Professional and private individuals										
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	126,374	47	-	-	-	126,374	100.0	520	520	
Loans for the purchase of other residential properties	7,400,711	2,575	-	-	-	7,400,711	100.0	893	-	
Loans for credit card advances	14,529	5	124	311	199	-	-	144	41	
Loans for other business purposes	4,901	2	-	1	-	3,621	73.9	-	-	
Loans for other private purposes	3,900,481	16,958	91,888	485,830	477,135	164,771	4.2	134,696	96,201	
Trade finance	520,474	194	-	-	26	413,064	79.4	-	-	
Other loans and advances	121,028	45	-	270	270	101,655	84.0	-	-	
Sub-total	24,714,431	24,395	92,507	487,411	478,781	19,296,671	78.1	136,895	97,195	
Loans and advances for use outside Hong Kong	2,205,076	2,838	29,823	5,504	49,598	1,530,265	69.4	90,446	90,446	
Total loans and advances (excluding trade bills and other receivables)	26,919,507	27,233	122,330	492,915	528,379	20,826,936	77.4	227,341	187,641	

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

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

### 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 allowances HK\$'million
As at 30 June 2013				
Mainland China entities	1,260	68	1,328	27
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	392	1	393	-
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland China exposures	-	-	-	-
	<b>1,652</b>	<b>69</b>	<b>1,721</b>	<b>27</b>
	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total exposures HK\$'million	Individual impairment allowances HK\$'million
As at 31 December 2012				
Mainland China entities	1,301	40	1,341	30
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	436	44	480	-
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland China exposures	-	-	-	-
	<b>1,737</b>	<b>84</b>	<b>1,821</b>	<b>30</b>

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

### CROSS-BORDER CLAIMS

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

The following table illustrates claims on individual countries or areas after taking into account the transfer of risk, amounting to 10% or more of the aggregate cross-border claims.

	<b>Banks and other financial institutions</b>	<b>Public sector entities</b>	<b>Others</b>	<b>Total</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>	<b>HK\$'million</b>	<b>HK\$'million</b>
<b>As at 30 June 2013</b>				
1. Asia Pacific excluding				
Hong Kong, of which:	<b>3,665</b>	<b>355</b>	<b>576</b>	<b>4,596</b>
China	<b>1,795</b>	<b>355</b>	<b>397</b>	<b>2,547</b>
2. Western Europe, of which:	<b>2,465</b>	-	<b>148</b>	<b>2,613</b>
France	<b>1,096</b>	-	-	<b>1,096</b>
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'million	HK\$'million	HK\$'million	HK\$'million
<b>As at 31 December 2012</b>				
1. Asia Pacific excluding				
Hong Kong, of which:	4,318	252	536	5,106
China	1,720	252	234	2,206
Malaysia	932	-	72	1,004
Japan	854	-	3	857
2. Western Europe, of which:	2,081	-	135	2,216
France	1,253	-	-	1,253

## 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
<b>As at 30 June 2013</b>						
USD	3,466	2,818	929	1,569	8	-
RMB	417	448	1	-	(30)	632
AUD	1,033	1,173	328	192	(4)	-
Others	421	863	1,454	1,014	(2)	-
	<b>5,337</b>	<b>5,302</b>	<b>2,712</b>	<b>2,775</b>	<b>(28)</b>	<b>632</b>

	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
<b>As at 31 December 2012</b>						
USD	2,983	2,957	51	70	7	-
RMB	231	252	-	1	(22)	622
AUD	958	967	10	5	(4)	-
Others	984	1,010	82	57	(1)	-
	<b>5,156</b>	<b>5,186</b>	<b>143</b>	<b>133</b>	<b>(20)</b>	<b>622</b>



## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

### LIQUIDITY RATIOS

	For the six months ended	
	30 June	
	2013	2012
Average liquidity ratios for the period:		
Group	<u>45.7%</u>	48.5%
Bank	<u>40.6%</u>	45.9%

The average liquidity ratios are computed on both solo basis and consolidated basis using the arithmetic mean of each calendar month's average liquidity ratio as reported in the return relating to liquidity position submitted by the Bank to the HKMA pursuant to Section 63 of the Banking Ordinance in respect of the interim 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 2013, the Group recorded a profit after tax of HK\$187.5 million, representing an increase of HK\$28.8 million or 18.2% as compared to the profit after tax of HK\$158.7 million for the corresponding period in 2012. The increase in earnings of the Group for the period under review was mainly arising from widening net interest margin of loans and advances.

During the period under review, the Group's total interest income increased by HK\$12.8 million or 1.6% to HK\$810.3 million, and total interest expense decreased by HK\$46.4 million or 23.9% to HK\$147.8 million due to lower funding costs and decrease in average customer deposits.

Other operating income from loan transactions, stockbroking and other businesses of the Group increased by HK\$2.9 million or 2.7% to HK\$109.2 million in the period under review.

The Group's operating expenses increased by HK\$16.2 million or 4.4% to HK\$383.2 million mainly due to the increase in human resources related costs and premises related costs.

Impairment allowances for loans and advances and receivables increased by HK\$6.5 million or 4.2% to HK\$160.8 million.

The Group's total loans and advances (including trade bills) decreased by HK\$440.8 million or 1.6% to HK\$26.56 billion as at 30 June 2013 from HK\$27.0 billion as at 31 December 2012 mainly due to repayments of property related loans, commercial syndicated loans and other commercial loans. The Group's deposits from customers decreased by HK\$1.40 billion or 4.7% to HK\$28.02 billion as at 30 June 2013 from HK\$29.41 billion as at 31 December 2012. Total assets of the Group stood at HK\$36.62 billion as at 30 June 2013.

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

Hong Kong, 15 July 2013