

PUBLIC BANK (HONG KONG) LIMITED

Interim Financial Statements
for the six months ended 30 June 2015

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

INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

The Board of Directors (the “Board”) 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 2015 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30 June	
		2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Interest income	6	821,248	782,917
Interest expense	6	<u>(178,853)</u>	<u>(174,735)</u>
NET INTEREST INCOME		642,395	608,182
Other operating income	7	<u>114,152</u>	96,868
OPERATING INCOME		756,547	705,050
Operating expenses	8	(399,611)	(378,538)
Changes in fair value of investment properties		<u>2,782</u>	786
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		359,718	327,298
Impairment allowances for loans and advances and receivables	9	<u>(124,338)</u>	(117,858)
PROFIT BEFORE TAX		235,380	209,440
Tax	10	<u>(40,577)</u>	(38,411)
PROFIT FOR THE PERIOD		194,803	171,029
ATTRIBUTABLE TO:			
Owners of the Bank		<u>194,803</u>	171,029

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	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	194,803	171,029
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange loss on translating foreign operations, net of tax	(170)	(15,452)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	194,633	155,577
ATTRIBUTABLE TO:		
Owners of the Bank	194,633	155,577

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
	Notes		
ASSETS			
Cash and short term placements	12	5,557,003	3,981,269
Placements with banks and financial institutions maturing after one month but not more than twelve months	13	1,840,318	927,219
Derivative financial instruments	27	1,791	2,170
Loans and advances and receivables	14	29,056,339	28,433,510
Available-for-sale financial assets	15	6,804	6,804
Held-to-maturity investments	16	5,331,865	4,951,708
Interest in a joint venture		1,693	1,693
Deferred tax assets		25,421	25,899
Tax recoverable		-	69
Intangible assets	18	718	718
Property and equipment	19	66,434	67,409
Land held under finance leases	20	102,900	104,621
Investment properties	21	64,045	61,263
Goodwill		242,342	242,342
Other assets	17	214,198	164,176
TOTAL ASSETS		42,511,871	38,970,870
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		515,619	515,065
Derivative financial instruments	27	7,654	5,994
Customer deposits at amortised cost	22	35,100,362	31,655,486
Certificates of deposit issued at amortised cost		1,197,479	1,363,494
Current tax payable		40,538	16,444
Deferred tax liabilities		7,024	7,024
Other liabilities	17	504,750	373,559
TOTAL LIABILITIES		37,373,426	33,937,066
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK			
Share capital	23	2,854,045	2,854,045
Reserves	24	2,284,400	2,179,759
TOTAL EQUITY		5,138,445	5,033,804
TOTAL EQUITY AND LIABILITIES		42,511,871	38,970,870

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended	
	30 June	
	2015	2014
	(Unaudited)	(Unaudited)
Note	HK\$'000	HK\$'000
TOTAL EQUITY		
Balance at the beginning of the period	5,033,804	4,892,853
Profit for the period	194,803	171,029
Other comprehensive income in translation reserve	(170)	(15,452)
Total comprehensive income for the period	194,633	155,577
Dividends paid in respect of previous year	11(b) (89,992)	(82,095)
Balance at the end of the period	5,138,445	4,966,335

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	For the six months ended	
		30 June	
		2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		235,380	209,440
Adjustments for:			
Dividend income from listed investments	7	(28)	(17)
Dividend income from unlisted investments	7	(800)	(800)
Depreciation of property and equipment and land held under finance leases	8	10,211	10,753
Increase in fair value of investment properties		(2,782)	(786)
Decrease in impairment allowances for loans and advances and receivables		(491)	(28,330)
Net losses on disposal of property and equipment		20	86
Exchange differences		(192)	(14,931)
Profits tax paid		(15,936)	(27,528)
Operating profit before changes in operating assets and liabilities		225,382	147,887
Increase in operating assets:			
Increase in placements with banks and financial institutions		(638,725)	(276,052)
Decrease/(increase) in derivative financial instruments		379	(1,532)
Increase in loans and advances and receivables		(622,316)	(447,511)
Increase in held-to-maturity investments		(758,938)	(123,092)
Increase in other assets		(50,022)	(3,041)
		(2,069,622)	(851,228)
Increase/(decrease) in operating liabilities:			
Increase/(decrease) in deposits and balances of banks and other financial institutions at amortised cost		554	(16,910)
Increase in customer deposits at amortised cost		3,444,876	538,730
Decrease in certificates of deposit issued at amortised cost		(166,015)	(549,063)
Increase in derivative financial instruments		1,660	177
Increase/(decrease) in other liabilities		131,191	(18,451)
		3,412,266	(45,517)
Net cash inflow/(outflow) from operating activities		1,568,026	(748,858)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		For the six months ended 30 June	
		2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
	Notes	HK\$'000	HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		1,568,026	(748,858)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	19	(7,563)	(8,021)
Exchange differences		3	(30)
Sales proceeds from disposal of property and equipment		25	-
Dividends received from listed investments		28	17
Dividends received from unlisted investments		800	800
Net cash outflow from investing activities		(6,707)	(7,234)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on shares		(89,992)	(82,095)
Net cash outflow from financing activities		(89,992)	(82,095)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,471,327	(838,187)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		4,615,182	5,327,141
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		6,086,509	4,488,954
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand	12	1,088,485	911,451
Money at call and short notice with an original maturity within three months	12	4,468,518	2,796,494
Placements with banks and financial institutions with an original maturity within three months		438,423	422,063
Held-to-maturity investments with an original maturity within three months		91,083	358,946
		6,086,509	4,488,954

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 2014 Annual Report.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group’s 2014 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 include the interim financial statements of the Bank and its subsidiaries for the period ended 30 June 2015. The interim financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income (“OCI”) are attributed to the owners of the parent of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in OCI is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO INTERIM FINANCIAL STATEMENTS

2. BASIS OF CONSOLIDATION (Continued)

The subsidiaries consolidated for accounting purpose are as follows:

Name	30 June 2015		31 December 2014		Principal activities
	Total Assets (Unaudited)	Total Equity (Unaudited)	Total Assets (Audited)	Total Equity (Audited)	
	HK\$	HK\$	HK\$	HK\$	
Public Financial Securities Limited	130,821,547	47,894,024	112,606,188	47,893,643	Securities brokerage
Public Bank (Nominees) Limited	100,000	100,000	100,000	100,000	Provision of nominee services
Public Investments Limited #	200	200	200	200	Dormant
Public Realty Limited #	99,208	99,208	99,208	99,208	Dormant
Public Credit Limited	2,471,984	2,471,984	2,471,984	2,471,984	Dormant
Public Futures Limited	1	1	1	1	Dormant
Public Pacific Securities Limited	4,760,637	3,488,604	4,854,553	3,480,362	Dormant
Public Finance Limited ("Public Finance")*	6,182,498,248	1,440,817,544	5,831,691,841	1,444,171,059	Deposit-taking and financing
Public Financial Limited	10,101,371	10,101,371	10,101,371	10,101,371	Investment holding
Public Securities Limited	201,445,474	145,830,031	174,222,910	141,264,776	Securities brokerage
Public Securities (Nominees) Limited	1,101,897	1,089,066	1,091,339	1,077,258	Provision of nominee services

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

In members' voluntary liquidation

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 Banking (Disclosure) Rules issued by the HKMA.

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

The computation of the consolidated total capital 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 purpose.

There are no major restrictions or impediments on the transfer of capital or funds among the members of the Bank's consolidation group except that liquidity, capital and other performance indicators of Public Financial Securities Limited and Public Securities Limited should satisfy the minimum requirements of the Securities and Futures (Financial Resources) Rules issued by the Securities and Futures Commission of Hong Kong.

A portion of retained profits, based on a percentage of gross loans and advances, is set aside 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.

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 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 ratio requirements 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%. Furthermore, the leverage ratio that forms part of Basel III implementation is under parallel run until January 2017 and relevant information has been submitted by the Bank and Public Finance for regulatory monitoring since 2014. Additional capital requirements, including a new countercyclical capital buffer ranging from 0% to 2.5%, will be implemented from 1 January 2016.

NOTES TO INTERIM FINANCIAL STATEMENTS

4. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which are generally effective for accounting periods beginning on or after 1 January 2015. The Group has adopted the following revised standards and new interpretation issued up to 30 June 2015 which are pertinent to its operations and relevant to these interim financial statements.

- Annual Improvements 2010-2012 Cycle Amendments to a number of HKFRSs*
- Annual Improvements 2011-2013 Cycle Amendments to a number of HKFRSs*
- Amendments to HKAS 19 *Defined Benefit Plans : Employee Contributions**

* Effective for annual periods beginning on or after 1 July 2014

The Annual Improvements to HKFRSs 2010-2012 Cycle issued in January 2014 sets out amendments to a number of HKFRSs. The Group adopted the amendments from 1 January 2015. None of the amendments has a significant financial impact on the Group. Details of the amendments are as follows:

HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The Group has applied the aggregation criteria in HKFRS 8.12. The Group has disclosed the judgements made by management in applying the aggregation criteria and presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in note 5 to these interim financial statements.

HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets*: Clarifies that an asset revaluation can be performed in one of the following ways:

- (i) adjusting the gross carrying amount of the asset to market value; or
- (ii) determining the market value of the carrying amount and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value.

In addition, it clarifies that the accumulated depreciation or amortisation is the difference between the gross carrying amount and the carrying amount of the asset. The amendment does not have any material impact on the Group.

HKAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendments do not have any material impact on the Group.

NOTES TO INTERIM FINANCIAL STATEMENTS

4. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

The Annual Improvements to HKFRSs 2011-2013 Cycle issued in January 2014 sets out amendments to a number of HKFRSs. The Group adopted the amendments from 1 January 2015. None of the amendments have a significant financial impact on the Group. Details of the amendments are as follows:

HKFRS 3 Business Combinations: Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment does not have any material impact on the Group.

HKFRS 13 Fair Value Measurement: Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment was applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment does not have any material impact on the Group.

HKAS 40 Investment Property: Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment does not have any material impact on the Group.

The HKAS 19 Amendments apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments do not have any material impact on the Group.

In addition, the requirements of Part 9 “Accounts and Audit” of the Hong Kong Companies Ordinance (Cap. 622) came into effect for the first time during the current financial year. The main impact to the interim financial statements is on the presentation and disclosure of certain information in the interim financial statements.

NOTES TO INTERIM FINANCIAL STATEMENTS

4. ACCOUNTING POLICIES (Continued)

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 *Financial Instruments*³
- Amendments to HKFRS 10 and HKAS 28 (2011) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*¹
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) *Investment Entities: Applying the Consolidation Exception*¹
- Amendments to HKFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*¹
- HKFRS 14 *Regulatory Deferral Accounts*⁴
- HKFRS 15 *Revenue from Contracts with Customers*²
- Amendments to HKAS 1 *Disclosure Initiative*¹
- Amendments to HKAS 16 and HKAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*¹
- Amendments to HKAS 16 and HKAS 41 *Agriculture : Bearer Plants*¹
- Amendments to HKAS 27 (2011) *Equity Method in Separate Financial Statements*¹
- Annual Improvements 2012-2014 Cycle *Amendments to a number of HKFRSs*¹

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2017

³ Effective for annual periods beginning on or after 1 January 2018

⁴ Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

NOTES TO INTERIM FINANCIAL STATEMENTS

4. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

Amendments to HKFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments to HKFRS 10 also clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Consequential amendments were made to HKFRS 12 to require an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with HKFRS 9 to present the disclosures in respect of investment entities in accordance with HKFRS 12. HKAS 28 (2011) was also amended to allow an investor that is not itself an investment entity, and has an interest in an investment entity associate or joint venture, to retain the fair value measurement applied by the investment entity associate or joint venture to the interest in its subsidiaries. The amendments are not expected to have any impact on the Group as the Bank is not an investment entity as defined in HKFRS 10.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

NOTES TO INTERIM FINANCIAL STATEMENTS

4. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structure approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements in five areas, including materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies and presentation of items of OCI arising from equity accounted investments. The amendments further encourage entities to apply professional judgement in determining what information to disclose and how to structure the disclosure in the financial statements. The Group expects to adopt the amendments from 1 January 2016.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

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:

- 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;
- 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 segment comprise mainly 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 2015 and 2014.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2015	2014	2015	2014	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue								
External:								
Net interest income	642,388	608,159	7	23	-	-	642,395	608,182
Other operating income:								
Fees and commission income	74,027	70,257	28,893	15,258	-	-	102,920	85,515
Others	7,156	7,606	(56)	(4)	4,132	3,751	11,232	11,353
Operating income	723,571	686,022	28,844	15,277	4,132	3,751	756,547	705,050
Operating profit after impairment allowance	216,567	204,009	12,878	1,827	5,935	3,604	235,380	209,440
Share of profit of a joint venture							-	-
Profit before tax							235,380	209,440
Tax							(40,577)	(38,411)
Profit for the period							194,803	171,029
Other segment information								
Depreciation of property and equipment and land held under finance leases	(10,211)	(10,753)	-	-	-	-	(10,211)	(10,753)
Changes in fair value of investment properties	-	-	-	-	2,782	786	2,782	786
Impairment allowances for loans and advances and receivables	(124,338)	(117,858)	-	-	-	-	(124,338)	(117,858)
Net losses on disposal of property and equipment	(20)	(86)	-	-	-	-	(20)	(86)

NOTES TO INTERIM FINANCIAL STATEMENTS

5. SEGMENT INFORMATION (Continued) Operating segment information (Continued)

The following table represents certain assets and liabilities information regarding operating segments as at 30 June 2015 and 31 December 2014.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Segment assets other than intangible assets and goodwill	41,751,161	38,313,391	426,491	325,495	64,045	61,263	42,241,697	38,700,149
Intangible assets	-	-	718	718	-	-	718	718
Goodwill	242,342	242,342	-	-	-	-	242,342	242,342
Segment assets	41,993,503	38,555,733	427,209	326,213	64,045	61,263	42,484,757	38,943,209
Unallocated assets:								
Interests in a joint venture							1,693	1,693
Deferred tax assets and tax recoverable							25,421	25,968
Total assets							42,511,871	38,970,870
Segment liabilities	37,097,127	33,774,584	225,335	135,582	3,402	3,432	37,325,864	33,913,598
Unallocated liabilities:								
Deferred tax liabilities and tax payable							47,562	23,468
Total liabilities							37,373,426	33,937,066
Other segment information								
Additions to non-current assets – capital expenditure	7,563	19,926	-	-	-	-	7,563	19,926

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 2015 and 2014.

	For the six months ended	
	30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Segment revenue from external customers:		
Hong Kong	716,204	663,899
Mainland China	40,343	41,151
	<u>756,547</u>	<u>705,050</u>

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 2015 and 31 December 2014.

	30 June	31 December
	2015	2014
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Non-current assets:		
Hong Kong	459,516	459,112
Mainland China	18,616	18,934
	<u>478,132</u>	<u>478,046</u>

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

Operating income or revenue from major customers

Operating income or revenue from transactions with each external customer, including a group of entities which are known to be under common control with that 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	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income from:		
Loans and advances and receivables	747,774	712,073
Short term placements and placements with banks	38,204	40,594
Held-to-maturity investments	35,270	30,250
	821,248	782,917
Interest expense on:		
Deposits from banks and financial institutions	2,066	4,082
Deposits from customers	176,721	170,596
Bank loans	66	57
	178,853	174,735

Interest income and interest expense for the six months ended 30 June 2015, 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\$821,248,000 and HK\$178,853,000 (2014: HK\$782,917,000 and HK\$174,735,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2015 amounted to HK\$1,947,000 (2014: HK\$2,655,000).

NOTES TO INTERIM FINANCIAL STATEMENTS

7. OTHER OPERATING INCOME

	For the six months ended	
	30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Fees and commission income:		
Retail and commercial banking	74,677	71,020
Wealth management services, stockbroking and securities management	28,893	15,258
	103,570	86,278
Less: Fees and commission expenses	(650)	(763)
Net fees and commission income	102,920	85,515
Gross rental income	4,153	3,770
Less: Direct operating expenses	(21)	(19)
Net rental income	4,132	3,751
Gains less losses arising from dealing in foreign currencies	11,510	4,538
Net (losses)/gains on derivative financial instruments	(5,863)	1,516
	5,647	6,054
Dividend income from listed investments	28	17
Dividend income from unlisted investments	800	800
Net losses on disposal of property and equipment	(20)	(86)
Others	645	817
	114,152	96,868

Direct operating expenses included repairs and maintenance expenses arising from investment properties.

There were no net gains or losses arising from available-for-sale financial assets, held-to-maturity investments, loans and advances and receivables, financial liabilities measured at amortised cost and financial liabilities designated at fair value through profit or loss for the six months ended 30 June 2015 and 2014.

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	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Staff costs:		
Salaries and other staff costs	228,505	211,275
Pension contributions	10,583	9,853
Less: Forfeited contributions	-	(4)
Net contribution to retirement benefit schemes	10,583	9,849
	239,088	221,124
Other operating expenses:		
Operating lease rentals on leasehold buildings	30,932	30,207
Depreciation of property and equipment and land held under finance leases	10,211	10,753
Administrative and general expenses	34,385	33,476
Others	84,995	82,978
	399,611	378,538

At 30 June 2015 and 2014, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The credits for the period ended 30 June 2014 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	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net charge for/(write-back of) impairment losses and allowances:		
- loans and advances	123,660	119,920
- trade bills, accrued interest and receivables	678	(2,062)
	124,338	117,858
Net charge for impairment losses and allowances:		
- individually assessed	122,455	115,692
- collectively assessed	1,883	2,166
	124,338	117,858
Of which:		
- new impairment losses and allowances (including any amount directly written off during the period)	209,809	217,066
- releases and recoveries	(85,471)	(99,208)
Net charge to the consolidated income statement	124,338	117,858

There were no impairment allowances for financial assets other than loans and advances and receivables for the six months ended 30 June 2015 and 2014.

NOTES TO INTERIM FINANCIAL STATEMENTS

10. TAX

	For the six months ended 30 June	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Current tax charge :		
Hong Kong	33,954	27,086
Overseas	6,145	8,677
Under-provision in prior periods	-	41
Deferred tax charge, net	478	2,607
	40,577	38,411

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 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 jurisdictions 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 jurisdictions in which the Bank, its subsidiaries and a joint venture 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 2015 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	210,304		25,076		235,380	
Tax at the applicable tax rate	34,700	16.5	6,269	25.0	40,969	17.4
Estimated tax effect of net (income)/expenses that is/are not (taxable)/deductible	(410)	(0.2)	19	0.1	(391)	(0.2)
Estimated tax losses from previous periods utilised	(1)	-	-	-	(1)	-
Tax charge at the Group's effective rate	34,289	16.3	6,288	25.1	40,577	17.2

NOTES TO INTERIM FINANCIAL STATEMENTS

10. TAX (Continued)

	For the six months ended 30 June 2014 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>172,402</u>		<u>37,038</u>		<u>209,440</u>	
Tax at the applicable tax rate	28,446	16.5	9,260	25.0	37,706	18.0
Estimated tax effect of net expenses that are not deductible	667	0.4	-	-	667	0.3
Estimated tax losses from previous periods utilised	(3)	-	-	-	(3)	-
Adjustments in respect of current tax of previous periods	41	-	-	-	41	-
Tax charge at the Group's effective rate	<u>29,151</u>	16.9	<u>9,260</u>	25.0	<u>38,411</u>	18.3

11. DIVIDENDS

(a) Dividends attributable to the interim period

	For the six months ended 30 June			
	2015 (Unaudited) HK\$ per ordinary share	2014 (Unaudited) HK\$ per ordinary share	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Interim dividend	6.324	5.714	93,696	84,659
Special dividend	-	2.025	-	30,002
	6.324	7.739	93,696	114,661

The interim dividend and special dividend were declared after the interim period and have not been recognised as a liability at the end of the interim period.

NOTES TO INTERIM FINANCIAL STATEMENTS

11. DIVIDENDS (Continued)

(b) Dividends attributable to the previous financial year, approved and paid during the interim period

	For the six months ended 30 June			
	2015 (Unaudited) HK\$ per ordinary share	2014 (Unaudited) HK\$ per ordinary share	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Final dividend in respect of the previous year	6.074	5.541	89,992	82,095

12. CASH AND SHORT TERM PLACEMENTS

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Cash on hand	144,775	147,797
Placements with banks and financial institutions	943,710	655,710
Money at call and short notice	4,468,518	3,177,762
	5,557,003	3,981,269

Over 90% (2014: over 90%) of the placements were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of an external credit agency, Moody's.

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

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

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Placements with banks and financial institutions	1,840,318	927,219

Over 90% (2014: over 90%) of the placements were deposited with banks and financial institutions 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

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Loans and advances to customers	29,051,922	28,421,886
Trade bills	34,146	39,935
Loans and advances, and trade bills	29,086,068	28,461,821
Accrued interest	73,606	75,506
Other receivables	29,159,674 820	28,537,327 851
Gross loans and advances and receivables	29,160,494	28,538,178
Less: Impairment allowances for loans and advances and receivables		
- individually assessed	(83,348)	(85,745)
- collectively assessed	(20,807)	(18,923)
	(104,155)	(104,668)
Loans and advances and receivables	29,056,339	28,433,510

Over 90% (2014: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (2014: over 90%) of the collateral for the 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:

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Neither past due nor impaired loans and advances and receivables	28,673,991	28,045,605
Past due but not impaired loans and advances and receivables	354,176	354,930
Individually impaired loans and advances	130,029	135,391
Individually impaired receivables	2,298	2,252
Gross loans and advances and receivables	29,160,494	28,538,178

About 63% (2014: 65%) of “Neither past due nor impaired loans and advances and receivables” were property mortgage loans and hire purchase loans secured by properties, 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 2015 (Unaudited)		31 December 2014 (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	65,895	0.23	69,841	0.25
One year or less but over six months	3,801	0.01	8,162	0.03
Over one year	13,085	0.05	21,004	0.07
Loans and advances overdue for more than three months	82,781	0.29	99,007	0.35
Rescheduled loans and advances overdue for three months or less	29,519	0.10	31,338	0.11
Impaired loans and advances overdue for three months or less	17,729	0.06	5,046	0.02
Total overdue and impaired loans and advances	130,029	0.45	135,391	0.48

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

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	124	115
One year or less but over six months	78	447
Over one year	2,012	1,655
Trade bills, accrued interest and other receivables overdue for more than three months	2,214	2,217
Impaired trade bills, accrued interest and other receivable overdue for three months or less	84	35
Total overdue and impaired trade bills, accrued interest and other receivables	2,298	2,252

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 2015 (Unaudited)			31 December 2014 (Audited)		
	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	<u>72,391</u>	<u>12,604</u>	<u>84,995</u>	89,034	12,190	101,224
Individual impairment allowances	<u>51,937</u>	<u>9,488</u>	<u>61,425</u>	57,426	5,545	62,971
Current market value and fair value of collateral			<u>18,325</u>			<u>45,582</u>
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	<u>119,683</u>	<u>12,644</u>	<u>132,327</u>	125,392	12,251	137,643
Individual impairment allowances	<u>73,821</u>	<u>9,527</u>	<u>83,348</u>	80,139	5,606	85,745
Current market value and fair value of collateral			<u>45,799</u>			<u>47,988</u>

Over 90% (2014: 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:

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	18,325	45,582
Covered portion of overdue loans and advances	8,152	15,552
Uncovered portion of overdue loans and advances	74,629	83,455

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 assets of the Group as at 30 June 2015 (31 December 2014: HK\$25,730,000).

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 2015 (Unaudited)		31 December 2014 (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	353,213	1.22	354,117	1.25
Trade bills, accrued interest and other receivables overdue for three months or less	963		813	

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 2015 (Unaudited) Collective impairment allowances HK\$'000	Total HK\$'000
At 1 January 2015	85,745	18,923	104,668
Amounts written off	(201,004)	-	(201,004)
Impairment losses and allowances charged to the consolidated income statement	204,280	5,529	209,809
Impairment losses and allowances released to the consolidated income statement	(81,825)	(3,646)	(85,471)
Net charge of impairment losses and allowances	122,455	1,883	124,338
Loans and advances and receivables recovered	76,131	-	76,131
Exchange difference	21	1	22
At 30 June 2015	83,348	20,807	104,155
Deducted from:			
Loans and advances	81,821	20,737	102,558
Trade bills, accrued interest and other receivables	1,527	70	1,597
	83,348	20,807	104,155

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 2014		
	(Audited)		
	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000	Total HK\$'000
At 1 January 2014	119,165	20,877	140,042
Amounts written off	(422,452)	-	(422,452)
Impairment losses and allowances charged to the consolidated income statement	403,719	1,269	404,988
Impairment losses and allowances released to the consolidated income statement	(180,676)	(3,206)	(183,882)
Net charge/(release) of impairment losses and allowances	223,043	(1,937)	221,106
Loans and advances and receivables recovered	166,502	-	166,502
Exchange difference	(513)	(17)	(530)
At 31 December 2014	85,745	18,923	104,668
Deducted from:			
Loans and advances	84,852	18,897	103,749
Trade bills, accrued interest and other receivables	893	26	919
	85,745	18,923	104,668

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 2015 (Unaudited)		31 December 2014 (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	346,858	263,777	379,228	283,853
In the second to fifth years, inclusive	995,272	732,627	1,128,029	821,638
Over five years	3,320,153	2,778,915	3,903,323	3,261,827
	4,662,283	3,775,319	5,410,580	4,367,318
Less: Unearned finance income	(886,964)		(1,043,262)	
Present value of minimum lease payments receivable	3,775,319		4,367,318	

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

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Unlisted equity investments in corporate entity, at fair value:		
At the beginning and at the end of the period/year	6,804	6,804

The unlisted investments issued by corporate entity are measured at fair value based on the present value of cash flows over a period of 10 years.

16. HELD-TO-MATURITY INVESTMENTS

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Certificates of deposit held	2,574,989	2,361,458
Treasury bills and government bonds (including Exchange Fund Bills)	1,825,339	1,816,022
Other debt securities	931,537	774,228
	5,331,865	4,951,708
Listed or unlisted:		
- Listed in Hong Kong	1,391,085	1,155,047
- Listed outside Hong Kong	61,694	98,791
- Unlisted	3,879,086	3,697,870
	5,331,865	4,951,708
Analysed by types of issuers:		
- Central governments	1,825,339	1,816,022
- Banks and other financial institutions	3,506,526	3,135,686
	5,331,865	4,951,708

There were no impairment allowances made against held-to-maturity investments as at 30 June 2015 and 31 December 2014. There were no movements in impairment allowances for the period ended 30 June 2015 and for the year ended 31 December 2014.

There were neither impaired nor overdue held-to-maturity investments as at 30 June 2015 and 31 December 2014.

All exposures attributed to the held-to-maturity investments were rated with a grading of A3 or above based on the credit rating of an external credit agency, Moody's, as at 30 June 2015 and 31 December 2014.

NOTES TO INTERIM FINANCIAL STATEMENTS

17. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Interest receivables from financial institutions	15,100	16,724
Other debtors, deposits and prepayments	166,890	114,259
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	32,208	33,193
	214,198	164,176

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

Other liabilities

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Interest payable	103,142	103,589
Creditors, accruals and other payables	330,233	250,837
Net amount of accounts payable to HKSCC	71,375	19,133
	504,750	373,559

NOTES TO INTERIM FINANCIAL STATEMENTS

18. INTANGIBLE ASSETS

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Cost:		
At the beginning and at the end of the period/year	<u>1,923</u>	1,923
Accumulated impairment:		
At the beginning and at the end of the period/year	<u>1,205</u>	1,205
Net carrying amount:		
At the beginning and at the end of the period/year	<u>718</u>	718

Intangible assets represent trading rights held by the Group. The trading rights are retained for stock trading and stockbroking activities, and have indefinite useful lives as the trading rights have no expiry date. They comprise five units (2014: five units) of Stock Exchange Trading Right and one unit (2014: 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	Leasehold improvement, furniture, fixtures, equipment and motor vehicles (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Cost:			
At 1 January 2015	17,745	209,725	227,470
Additions	-	7,563	7,563
Disposals/write-off	-	(3,077)	(3,077)
At 30 June 2015	<u>17,745</u>	<u>214,211</u>	<u>231,956</u>
Accumulated depreciation:			
At 1 January 2015	6,086	153,975	160,061
Provided during the period	193	8,297	8,490
Disposals/write-off	-	(3,032)	(3,032)
Exchange difference	3	-	3
At 30 June 2015	<u>6,282</u>	<u>159,240</u>	<u>165,522</u>
Net carrying amount:			
At 30 June 2015	<u>11,463</u>	<u>54,971</u>	<u>66,434</u>
At 31 December 2014 (Audited)	<u>11,659</u>	<u>55,750</u>	<u>67,409</u>

NOTES TO INTERIM FINANCIAL STATEMENTS

19. PROPERTY AND EQUIPMENT (Continued)

	Buildings (Audited) HK\$'000	Leasehold improvement, furniture, fixtures, equipment and motor vehicles (Audited) HK\$'000	Total (Audited) HK\$'000
Cost:			
At 1 January 2014	17,090	191,117	208,207
Additions	-	19,926	19,926
Transfer from investment properties	655	-	655
Disposals/write-off	-	(1,318)	(1,318)
At 31 December 2014	17,745	209,725	227,470
Accumulated depreciation:			
At 1 January 2014	5,705	137,238	142,943
Provided during the year	415	17,925	18,340
Disposals/write-off	-	(1,188)	(1,188)
Exchange difference	(34)	-	(34)
At 31 December 2014	6,086	153,975	160,061
Net carrying amount:			
At 31 December 2014	11,659	55,750	67,409
At 31 December 2013	11,385	53,879	65,264

There were no impairment allowances made against the above items of property and equipment for the period ended 30 June 2015 and for the year ended 31 December 2014.

NOTES TO INTERIM FINANCIAL STATEMENTS

20. LAND HELD UNDER FINANCE LEASES

	HK\$'000
Cost:	
At 1 January 2014 (Audited)	137,196
Transfer from investment properties	<u>6,425</u>
At 31 December 2014, 1 January 2015 (Audited) and 30 June 2015 (Unaudited)	<u>143,621</u>
Accumulated depreciation and impairment:	
At 1 January 2014	35,724
Depreciation provided during the year	<u>3,276</u>
At 31 December 2014 and 1 January 2015 (Audited)	39,000
Depreciation provided during the period	<u>1,721</u>
At 30 June 2015 (Unaudited)	<u>40,721</u>
Net carrying amount:	
At 30 June 2015 (Unaudited)	<u>102,900</u>
At 31 December 2014 (Audited)	<u>104,621</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

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Carrying amount at the beginning of the period/year	61,263	65,543
Transfer to property and equipment	-	(655)
Transfer to land held under finance leases	-	(6,425)
Changes in fair value recognised in consolidated income statement	2,782	2,800
Carrying amount at the end of the period/year	64,045	61,263

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

All investment properties were classified under Level 3 in the fair value hierarchy. During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (31 December 2014: Nil). The Group has assessed that the highest and best use of its properties did not differ from their existing use.

At 30 June 2015, investment properties were revalued according to the revaluation reports issued by C S Surveyors Limited, a firm of independent professionally qualified valuers. Finance and Control Department has discussions with the valuer on the valuation methodology and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

NOTES TO INTERIM FINANCIAL STATEMENTS

21. INVESTMENT PROPERTIES (Continued)

The fair value of investment properties located in Hong Kong is determined using market comparison approach by reference to recent sales price of comparable properties on a price per square metre basis. Below is a summary of the significant inputs to the valuation of investment properties:

	30 June 2015 (Unaudited)		31 December 2014 (Audited)	
	Range	Weighted average	Range	Weighted average
Price per square metre	HK\$72,000 to HK\$489,000	HK\$229,000	HK\$70,000 to HK\$461,000	HK\$215,000

A significant increase/decrease in the price per square metre would result in a significant increase/decrease in the fair value of the investment properties.

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.

22. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Demand deposits and current accounts	3,385,683	3,075,760
Savings deposits	5,112,788	4,261,031
Time, call and notice deposits	26,601,891	24,318,695
	35,100,362	31,655,486

NOTES TO INTERIM FINANCIAL STATEMENTS

23. SHARE CAPITAL

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Issued and fully paid: 14,816,000 (2014: 14,816,000) ordinary shares	<u>2,854,045</u>	2,854,045

A summary of movements in the Bank's share capital during the period is shown as follows:

	Share capital HK\$'000
As at 1 January 2014 (Audited)	1,481,600
Transition to no-par value regime on 3 March 2014 (note)	<u>1,372,445</u>
As at 31 December 2014, 1 January 2015 (Audited) and 30 June 2015 (Unaudited)	<u>2,854,045</u>

Note:

In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap.622), any amount standing to the credit of the share premium account has become part of the Bank's share capital on 3 March 2014.

NOTES TO INTERIM FINANCIAL STATEMENTS

24. RESERVES

	Other statutory capital reserves - Share premium HK\$'000	Other reserves					Total HK\$'000
		Group reconstruction reserve HK\$'000	Capital reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Translation reserve HK\$'000	
At 1 January 2014	1,372,445	3,065	17,660	410,145	1,523,206	84,732	3,411,253
Transition to no-par value regime on 3 March 2014 (note 23)	(1,372,445)	-	-	-	-	-	(1,372,445)
Profit for the year	-	-	-	-	354,286	-	354,286
Other comprehensive income	-	-	-	-	-	(16,579)	(16,579)
Transfer from retained profits	-	-	-	28,790	(28,790)	-	-
Dividends paid in respect of previous year	-	-	-	-	(82,095)	-	(82,095)
Dividends paid in respect of current year	-	-	-	-	(114,661)	-	(114,661)
At 31 December 2014 and 1 January 2015 (Audited)	-	3,065	17,660	438,935	1,651,946	68,153	2,179,759
Profit for the period	-	-	-	-	194,803	-	194,803
Other comprehensive income	-	-	-	-	-	(170)	(170)
Transfer from retained profits	-	-	-	15,620	(15,620)	-	-
Dividends paid in respect of previous year	-	-	-	-	(89,992)	-	(89,992)
At 30 June 2015 (Unaudited)	-	3,065	17,660	454,555	1,741,137	67,983	2,284,400

Note:

The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. It was held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to HKMA's guideline.

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 2015 (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	209,516	209,516	83,108	-	-
Transaction-related contingencies	10,747	5,374	871	-	-
Trade-related contingencies	31,549	6,309	4,901	-	-
Forward forward deposits placed	231,844	231,844	46,369	-	-
Forward asset purchases	227	227	45	-	-
	483,883	453,270	135,294	-	-
Derivatives held for trading :					
Foreign exchange rate contracts	2,622,609	17,641	17	1,791	7,654
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	6,667	3,333	3,333	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	4,017,748	-	-	-	-
	7,130,907	474,244	138,644	1,791	7,654
Capital commitments contracted for, but not provided in the consolidated statement of financial position	6,050				

NOTES TO INTERIM FINANCIAL STATEMENTS

25. OFF-BALANCE SHEET EXPOSURE (Continued)

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

31 December 2014

(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	227,329	227,329	98,883	-	-
Transaction-related contingencies	14,923	7,462	2,734	-	-
Trade-related contingencies	39,393	7,878	7,661	-	-
Forward forward deposits placed	253,079	253,079	50,616	-	-
Forward asset purchases	513	513	103	-	-
	535,237	496,261	159,997	-	-
Derivatives held for trading :					
Foreign exchange rate contracts	665,872	6,461	151	2,170	5,994
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	-	-	-	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	4,406,010	-	-	-	-
	5,607,119	502,722	160,148	2,170	5,994
Capital commitments contracted for, but not provided in the consolidated statement of financial position	6,302				

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, commitments and derivatives.

At 30 June 2015 and 31 December 2014, 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 their investment properties in note 21 under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

At 30 June 2015 and 31 December 2014, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Within one year	3,377	1,995
In the second to fifth years, inclusive	3,134	2,062
	6,511	4,057

(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 2015 and 31 December 2014, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Within one year	99,021	62,603
In the second to fifth years, inclusive	85,323	39,569
	184,344	102,172

NOTES TO INTERIM FINANCIAL STATEMENTS

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial assets and financial liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values of financial instruments which are not carried at fair value in the interim financial statements.

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

Liquid or/and very short term and variable rate financial instruments include loans and advances and receivables, held-to-maturity investments, customer deposits, certificates of deposit issued and unsecured bank loans. As these financial instruments are liquid or having a short term maturity or at variable rate, the carrying amounts are reasonable approximations of their fair values. In the case of loans and unquoted debt securities, their fair values do not reflect changes in their credit quality as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances.

Fixed rate financial instruments

Fixed rate financial instruments include placements with banks and financial institutions, loans and advances and receivables, held-to-maturity investments, deposits from banks and other financial institutions, customer deposits and certificates of deposit issued. The fair values of these fixed rate financial instruments carried at amortised cost are based on prevailing money-market interest rates or current interest rates offered for similar financial instruments appropriate for the remaining term to maturity. The carrying amounts of such financial instruments are not materially different from their fair values.

(b) Financial assets and financial liabilities carried at fair value

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

	30 June 2015 (Unaudited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets:				
Derivative financial instruments	-	1,791	-	1,791
Available-for-sale financial assets	-	-	6,804	6,804
	-	1,791	6,804	8,595
Financial liabilities:				
Derivative financial instruments	-	7,654	-	7,654

NOTES TO INTERIM FINANCIAL STATEMENTS

27. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(b) Financial assets and financial liabilities carried at fair value (Continued)

	31 December 2014 (Audited)			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets:				
Derivative financial instruments	-	2,170	-	2,170
Available-for-sale financial assets	-	-	6,804	6,804
	-	2,170	6,804	8,974
Financial liabilities:				
Derivative financial instruments	-	5,994	-	5,994

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 2015, the effects of discounting were considered insignificant for the Level 2 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 reassessing 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 valuation 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 the Level 3 financial instruments is insignificant to the Group.

For the period ended 30 June 2015 and for the year ended 31 December 2014, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the period ended 30 June 2015 and for the year ended 31 December 2014, there were no issues and settlements related to the Level 3 financial instruments.

There was no gain or loss and no OCI reported in the consolidated income statement and consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the period ended 30 June 2015 and for the year ended 31 December 2014.

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

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 2015 (Unaudited)							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Financial assets:								
Cash and short term placements	1,088,485	4,468,518	-	-	-	-	-	5,557,003
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	1,189,790	650,528	-	-	-	1,840,318
Loans and advances and receivables (gross)	985,961	1,924,958	1,767,454	3,350,190	6,243,556	14,788,182	100,193	29,160,494
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	761,864	725,810	2,770,332	1,073,859	-	-	5,331,865
Other assets	172	140,048	5,925	7,058	-	-	60,995	214,198
Foreign exchange contracts (gross)	-	2,086,286	303,341	232,982	-	-	-	2,622,609
Total financial assets	2,074,618	9,381,674	3,992,320	7,011,090	7,317,415	14,788,182	167,992	44,733,291
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	37,839	227,780	150,000	100,000	-	-	-	515,619
Customer deposits at amortised cost	8,517,166	11,317,894	9,904,589	5,112,017	248,696	-	-	35,100,362
Certificates of deposit issued at amortised cost	-	-	697,629	499,850	-	-	-	1,197,479
Other liabilities	834	220,879	34,396	38,342	10,788	-	199,511	504,750
Foreign exchange contracts (gross)	-	2,090,333	303,302	234,837	-	-	-	2,628,472
Total financial liabilities	8,555,839	13,856,886	11,089,916	5,985,046	259,484	-	199,511	39,946,682
Net liquidity gap	(6,481,221)	(4,475,212)	(7,097,596)	1,026,044	7,057,931	14,788,182	(31,519)	4,786,609
	31 December 2014 (Audited)							
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	Total HK\$'000
Financial assets:								
Cash and short term placements	803,507	3,177,762	-	-	-	-	-	3,981,269
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	346,573	580,646	-	-	-	927,219
Loans and advances and receivables (gross)	612,411	1,677,574	1,569,560	3,468,009	6,401,940	14,700,519	108,165	28,538,178
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	633,829	478,357	2,785,486	1,054,036	-	-	4,951,708
Other assets	154	98,241	5,317	8,908	-	-	51,556	164,176
Foreign exchange contracts (gross)	-	661,182	4,690	-	-	-	-	665,872
Total financial assets	1,416,072	6,248,588	2,404,497	6,843,049	7,455,976	14,700,519	166,525	39,235,226
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	37,173	327,892	50,000	100,000	-	-	-	515,065
Customer deposits at amortised cost	7,342,021	10,117,654	10,969,078	2,724,462	502,271	-	-	31,655,486
Certificates of deposit issued at amortised cost	-	-	409,980	953,514	-	-	-	1,363,494
Other liabilities	239	132,473	32,443	34,310	12,723	-	161,371	373,559
Foreign exchange contracts (gross)	-	665,020	4,676	-	-	-	-	669,696
Total financial liabilities	7,379,433	11,243,039	11,466,177	3,812,286	514,994	-	161,371	34,577,300
Net liquidity gap	(5,963,361)	(4,994,451)	(9,061,680)	3,030,763	6,940,982	14,700,519	5,154	4,657,926

NOTES TO INTERIM FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

The main risks arising from the Group's financial instruments are interest rate risk, market risk, credit risk, liquidity risk and operational risk. The respective Boards of the Bank and Public Finance review and approve policies for managing each of these risks and they are summarised below.

Risk management

The Group's business activities comprise retail and commercial banking services. These activities expose the Group to a variety of financial risks, mainly interest rate risk, market risk, credit risk, liquidity risk and operational risk.

The Group's financial risk management is underpinned by the Group's risk appetite and is subject to the respective Boards' oversight, through the Risk Management Committees ("RMCs") of the Bank and Public Finance, which are Board Committees overseeing the establishment of enterprise-wide risk management policies and processes. The RMCs are assisted by the specific risk oversight committees including the Assets and Liabilities Management Committee ("ALCO"), Operational Risk Management Committee ("ORMC"), Credit Committee, Credit Risk Management Committee, and Anti-Money Laundering and Counter-terrorist Financing and Compliance Committee or equivalent committees with similar functions of the Bank and Public Finance.

The Group has established systems, policies and procedures for the control and monitoring of interest rate risk, market risk, credit risk, liquidity risk and operational risk, which are approved and endorsed by the respective Boards and reviewed regularly by the Group's management, 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 and Public Finance also perform regular audits to ensure compliance with the policies and procedures.

Interest rate risk management

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 respective ALCOs of the Bank and Public Finance against limits approved by the respective Boards.

NOTES TO INTERIM FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management

(a) Currency risk

Currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign exchange positions are managed by the Group's Treasury Department within limits approved by the Board.

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 2015, 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 2014: HK\$6 million) mainly as a result of foreign exchange impact arising from net structural position of RMB denominated operating capital.

(b) Price risk

Price risk is the risk to the Group's earnings and capital due to changes in the prices of securities, including 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 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). 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, and detailed procedures and controls for monitoring connected lending exposures. In general, interest rates and other terms and conditions applying to connected lending should not be more favourable than those loans offered to non-connected borrowers under similar circumstances. The terms and conditions should be determined on normal commercial terms at arm's length and in the ordinary course of business of the Group.

Credit and compliance audits are periodically conducted by 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 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. Major sources of liquidity risk of the Group are the early or unexpected withdrawals of deposits in cash outflow and the delay in cash inflow from loan repayments. To manage liquidity risk, the Group has established a liquidity risk management framework which incorporates liquidity risk related policies and procedures, risk related metrics and tools, risk related assumptions, and the manner of reporting significant matters. The major objectives of liquidity risk management framework are to identify, measure and control liquidity risk exposures with proper implementation of funding strategies and with reporting of significant risk related matters to management. Liquidity risk related policies are reviewed by senior management and dedicated committees, and significant changes in such policies are approved by the respective Boards of the Bank and Public Finance or committees delegated by the respective Boards. The respective Boards are responsible for exercising management oversight over the liquidity risk management framework of the respective companies.

ALCOs 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.

Treasury Department of the Bank and a dedicated department of Public Finance are responsible for carrying out the strategies and policies approved by the dedicated committees and the respective Boards, and to develop operational procedures and controls to ensure the compliance with the aforesaid policies and to minimise operational disruptions in case of a liquidity crisis.

NOTES TO INTERIM FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Risk Management Department of the Bank and a dedicated department of Public Finance are responsible for day-to-day monitoring of liquidity maintenance ratio, loans to deposits ratios, concentration related ratios and other liquidity risk related ratios coupled with the use of cash flow projections, maturity ladder, stress-testing methodologies and other applicable risk assessment tools and metrics to detect early warning signals and identify vulnerabilities to potential liquidity risk on forward-looking basis with the objective of ensuring different types of liquidity risks of the Group are appropriately identified, measured, assessed and reported. Risk Management Department of the Bank and the dedicated department of Public Finance carry out analysis based on risk-based MIS reports, summarise the data from those reports and present the key information to the respective ALCOs on a regular (at least monthly) basis. In case of significant issues, such as serious limit excesses or breaches or early warning signals of potential severe impact on the Bank or Public Finance are identified from the aforesaid MIS reports or market information obtained from Treasury Department and business units, a designated ALCO member will convene a meeting (involving senior management members) to discuss risk related matters and propose actions to ALCO whenever necessary. A high level summary of liquidity risk performance of the Bank or Public Finance will be presented by the respective ALCOs to their Risk Management Committees and the Boards.

The examples of liquidity risk related metrics of the Bank and Public Finance include internal trigger point of liquidity maintenance ratio which is higher than the statutory liquidity maintenance ratio; cash flow mismatches under normal and different stressed scenarios; concentration related limits of deposits and other funding sources, and maturity profile of major assets and liabilities (including on-and-off-balance sheet items).

The funding strategies of the Group are to (i) diversify funding sources for containing liquidity risk exposures, (ii) minimise disruptions due to operational issues such as transfer of liquidity across group entities, (iii) ensure contingency funding is available to the Group; and (iv) maintain sufficient liquidity cushion to meet critical liquidity needs such as loan commitments and deposits' withdrawals in stressed situations. For illustration, concentration limits of funding sources such as intra-group funding limits are set to reduce reliance on single source of funding.

Contingency funding plan is formulated to address liquidity needs under different stages including the mechanism for the detection of early warning signals of potential crisis at early stage and obtaining of emergent funding in bank-run scenario at later stage. Designated roles and responsibilities of Crisis Management Team, departments and business units and their emergency contact information are documented clearly in the contingency funding plan policy as part of business continuity planning, and contingency funding measures are in place to set priorities of funding arrangements with counterparties, to set procedures for intraday liquidity risk management and intragroup funding support, to manage media relationship and to communicate with internal and external parties during a liquidity crisis. The stress-testing results are updated and reported to senior management regularly and the results such as survival period for positive cashflow mismatches are used in contingency funding planning. Standby facilities and liquid assets are maintained to provide liquidity to meet unexpected and material cash outflows in stressed situations.

NOTES TO INTERIM FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

The Group maintains sufficient liquidity cushion comprising mainly bills, notes or bonds issued by eligible central governments in total amount not less than HK\$1 billion to address critical and emergent liquidity needs on intraday basis and over other different time horizons. The Group is not subject to particular collateral arrangements or requirements in contracts if there is a credit rating downgrade of entities within the Group.

Apart from cash flow projections under normal scenario to manage liquidity under different time horizons, different stressed scenarios such as institution-specific scenario, market crisis scenario and the combination of such scenarios with assumptions are set and reviewed by dedicated committees and approved by the respective Boards. For instance, under institution-specific scenario, loan repayments from some customers are assumed to be delayed. The projected cash inflow would be reduced by the amount of rollover of banking facilities by some corporate customers or reduced by the amount of retail loan delinquencies. Regarding cash outflow projection, part of undrawn banking facilities are not to be utilised by borrowers or honoured by the Group. Core deposits ratio would decrease as there would be early withdrawals of some fixed deposits before contractual maturity dates or there would be fewer renewals of fixed deposits on the contractual maturity dates. In market crisis scenario, some undrawn banking facilities are not to be honored upon drawdown as some bank counterparties will not have sufficient liquidity to honor their obligations in market. The Group may pledge or liquidate its liquid assets such as debt securities (including but not limited to bills, notes or bonds issued by eligible central governments) to secure funding to address potential liquidity crisis. Liquidity stress-tests are conducted regularly (at least monthly) and the results are utilised for part of contingency funding plan or for providing insights to management about the latest liquidity position of the Group.

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 ORMC 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 Group for regulatory and risk management purposes includes share capital, 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 Group's policy is to maintain a strong capital base to support the development of the Group's businesses and to meet the statutory capital adequacy ratio and other regulatory capital requirements. Capital is allocated to various business activities of the Group 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

The consolidated 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 Capital Rules. The Group has adopted the standardised approach for the calculation of credit risk-weighted exposures and market risk-weighted exposures. The Group has adopted basic indicator approach and the standardised approach for the calculation of operational risk-weighted exposures of the Bank and Public Finance respectively.

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Consolidated CET1 Capital Ratio	16.3%	16.7%
Consolidated Tier 1 Capital Ratio	16.3%	16.7%
Consolidated Total Capital Ratio	17.5%	17.9%

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 components of capital base include the following items:

Group

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
CET1 capital instruments	2,854,045	2,854,045
Retained earnings	1,639,439	1,555,030
Disclosed reserves	526,198	510,748
CET1 capital before deduction	5,019,682	4,919,823
Deduct:		
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	(27,122)	(24,339)
Regulatory reserve for general banking risk	(454,555)	(438,935)
Goodwill	(242,342)	(242,342)
Deferred tax assets in excess of deferred tax liabilities	(17,039)	(17,517)
CET1 capital after deduction	4,278,624	4,196,690
Additional Tier 1 capital	-	-
Tier 1 capital after deductions	4,278,624	4,196,690
Reserve attributable to fair value gains	12,205	10,953
Regulatory reserve for general banking risk	272,867	261,414
Collective provisions	20,808	18,923
	293,675	280,337
Tier 2 capital	305,880	291,290
Capital base	4,584,504	4,487,980

NOTES TO INTERIM FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital conservation buffer (“CCB”)

The Group will be subject to the 2.5% CCB ratio, to be phased-in from 2016. The Group reserved a capital buffer for the future implementation of CCB ratio for which the applicable CCB ratio will become fully effective on 1 January 2019.

Countercyclical capital buffer (“CCyB”)

The CCyB ratio is an additional layer of CET1 Capital which takes effect as an extension of the Basel III Capital Conservation Buffer.

The Group reserved a capital buffer for the future implementation of CCyB ratio, inclusive of CCyB ratio of 0.625% to Hong Kong exposures that would be applied from 1 January 2016.

Principal subsidiaries and basis of consolidation

The basis of consolidation for financial accounting purposes is in accordance with HKFRSs, as described in note 2 to the financial statements.

The basis of consolidation for regulatory purposes is different from that for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C(1) of the Capital Rules.

The subsidiaries not included in the computation of the consolidated capital adequacy ratio of the Group are Public Bank (Nominees) Limited, Public Investments Limited (in members' voluntary liquidation), Public Realty Limited (in members' voluntary liquidation), 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 investments in the aforesaid subsidiaries and other exposures.

Capital instruments

To comply with the BDR, the Group will present all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group's published interim financial statements under “Regulatory Disclosures” section on its website: www.publicbank.com.hk on or before 30 September 2015.

The disclosure will include the following information:

- A description of the main features and 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.

NOTES TO INTERIM FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital instruments (Continued)

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

		30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
	Note		
CET1 capital instruments issued by the Bank			
Ordinary shares:			
14,816,000 issued and fully paid ordinary shares	23	2,854,045	2,854,045

Leverage ratio

The leverage ratio is introduced into the Basel III framework as a non-risk-based backstop limit to supplement risk-based capital requirements. It aims to constraining the build-up of excess leverage in the banking sector, and introducing additional safeguards against model risk and measurement errors. The ratio is a volume-based measure calculated as Basel III Tier 1 capital divided by total On-balance sheet and Off-balance sheet exposures with reference to the Completion Instructions of the Quarterly Template on Leverage Ratio.

	30 June 2015 (Unaudited)
Consolidated leverage ratio	10.0%

The disclosure on leverage ratio is effective since 31 March 2015 and the relevant disclosures can be viewed in the "Regulatory Disclosures" section on the Group's website: www.publicbank.com.hk on or before 30 September 2015.

Comparative figures are not required as this is the first year of disclosure.

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 2015								
	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	762,333	224	297	346	107	738,281	96.8	1,469	1,173
Building and construction, property development and investment									
Property development	339,644	95	-	-	-	339,376	99.9	-	-
Property investment	6,154,278	1,722	-	-	-	5,946,461	96.6	9,260	-
Civil engineering works	132,633	45	142	142	-	42,770	32.2	580	580
Electricity and gas	606	-	-	-	-	606	100.0	-	-
Recreational activities	12,476	3	-	-	-	12,379	99.2	-	-
Information technology	13,440	4	-	-	-	4,915	36.6	-	-
Wholesale and retail trade	207,989	101	506	610	502	187,486	90.1	859	859
Transport and transport equipment	3,750,485	936	2,584	2,633	-	3,718,749	99.2	2,610	2,584
Hotels, boarding houses and catering	145,527	41	-	-	-	131,999	90.7	-	-
Financial concerns	404,914	113	-	-	-	193,626	47.8	-	-
Stockbrokers									
Margin lending	748,775	209	-	63	-	517,423	69.1	-	-
Others	-	-	-	-	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	92,539	26	-	-	-	56,619	61.2	-	-
Others	82,919	23	-	-	-	81,119	97.8	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	85,162	24	-	-	-	85,162	100.0	-	-
Loans for the purchase of other residential properties	8,404,095	2,212	-	71	-	8,404,095	100.0	2,352	2,352
Loans for credit card advances	11,778	3	113	148	36	-	-	113	95
Loans for other business purposes	23,377	7	-	-	-	23,377	100.0	-	-
Loans for other private purposes	3,955,646	13,139	69,181	199,940	199,249	274,004	6.9	97,373	64,497
Trade finance	1,029,345	288	-	94	183	947,894	92.1	4,734	-
Other loans and advances	93,663	26	-	-	-	87,237	93.1	-	-
Sub-total	26,451,624	19,241	72,823	204,047	200,077	21,793,578	82.4	119,350	72,140
Loans and advances for use outside Hong Kong	2,600,298	1,496	8,998	4,953	850	2,441,560	93.9	10,679	10,641
Total loans and advances (excluding trade bills and other receivables)	29,051,922	20,737	81,821	209,000	200,927	24,235,138	83.4	130,029	82,781

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

	31 December 2014								
	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	597,767	244	58	104	78	570,348	95.4	373	373
Building and construction, property development and investment									
Property development	362,320	142	-	-	-	340,331	93.9	-	-
Property investment	6,230,289	2,443	-	209	-	5,876,317	94.3	3,351	3,351
Civil engineering works	116,439	55	-	624	616	26,125	22.4	-	-
Electricity and gas	728	-	-	-	-	728	100.0	-	-
Recreational activities	12,102	5	-	4	-	11,974	98.9	-	-
Information technology	33,761	13	-	1	-	5,288	15.7	-	-
Wholesale and retail trade	214,461	110	403	489	54	194,501	90.7	1,723	1,723
Transport and transport equipment	4,341,459	1,473	65	284	165	4,298,712	99.0	289	229
Hotels, boarding houses and catering	115,411	45	-	23	-	99,860	86.5	-	-
Financial concerns	383,092	150	-	31	-	177,662	46.4	-	-
Stockbrokers									
Margin lending	371,672	146	-	93	-	210,778	56.7	-	-
Others	5,000	2	-	2	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	93,840	37	-	27	-	59,015	62.9	-	-
Others	79,695	31	-	-	-	76,916	96.5	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	93,721	37	-	-	-	93,721	100.0	-	-
Loans for the purchase of other residential properties	8,081,223	2,883	-	496	-	8,081,223	100.0	3,359	2,352
Loans for credit card advances	12,940	5	-	232	328	-	-	-	-
Loans for other business purposes	22,310	9	-	3	-	22,310	100.0	-	-
Loans for other private purposes	3,865,855	8,937	74,381	395,997	410,571	219,838	5.7	105,789	70,530
Trade finance	1,029,935	404	5,033	2,633	-	781,688	75.9	10,066	10,066
Other loans and advances	91,882	36	-	2	-	83,577	91.0	-	-
Sub-total	26,155,902	17,207	79,940	401,254	411,812	21,230,912	81.2	124,950	88,624
Loans and advances for use outside Hong Kong	2,265,984	1,690	4,912	3,340	10,294	2,098,426	92.6	10,441	10,383
Total loans and advances (excluding trade bills and other receivables)	28,421,886	18,897	84,852	404,594	422,106	23,329,338	82.1	135,391	99,007

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:

Types of counterparties	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total HK\$'million
As at 30 June 2015			
Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	254	-	254
People's Republic of China ("PRC") nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	1,671	185	1,856
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	20	-	20
Total	1,945	185	2,130
Total assets after provision	42,524		
On-balance sheet exposures as percentage of total assets	4.57%		
	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total HK\$'million
As at 31 December 2014			
Central government, central government-owned entities and their subsidiaries and JVs	344	-	344
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	1,390	201	1,591
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	19	-	19
Total	1,753	201	1,954
Total assets after provision	38,987		
On-balance sheet exposures as percentage of total assets	4.50%		

Note:

The analysis of non-bank Mainland China exposures is disclosed with reference to the BDR and Completion Instruction for the HKMA Return of Mainland Activities.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

INTERNATIONAL CLAIMS

The HKMA Return of External Positions – Cross Border Claims was replaced by the Return of International Banking Statistics in 2015.

Due to the changes in computation basis, the international claims for 2015 are not directly comparable to the cross-border claims of 2014.

The information of international 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 recognised risk transfer. In general, recognised risk transfer 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 tables illustrate claims on individual countries or areas taking into account the recognised risk transfer, amounting to 10% or more of the aggregate international claims.

	Banks HK\$'million	Official sector HK\$'million	Non-bank financial institutions # HK\$'million	Non- financial private sector # HK\$'million	Total HK\$'million
As at 30 June 2015					
1. Developed countries*	2,971	475	-	63	3,509
2. Offshore centres, of which	1,314	2	58	2,108	3,482
- Hong Kong	572	2	58	1,736	2,368
3. Developing Asia-Pacific, of which	3,657	556	93	1,823	6,129
- China	1,658	556	93	1,753	4,060

CROSS-BORDER CLAIMS

	Banks and other financial institutions HK\$'million	Public sector entities HK\$'million	Others HK\$'million	Total HK\$'million
As at 31 December 2014				
1. Asia-Pacific excluding Hong Kong, of which	4,981	316	633	5,930
- China	3,004	316	473	3,793
2. Western Europe*	1,266	-	263	1,529

Non-bank private sector

* There were no exposures to the five “PIIGs” countries namely Portugal, Italy, Ireland, Greece and Spain.

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 short position HK\$'million	Structural assets HK\$'million
As at 30 June 2015						
RMB	644	680	-	2	(38)	625
Others	7,074	5,743	1,210	2,545	(4)	-
	7,718	6,423	1,210	2,547	(42)	625

	Spot assets HK\$'million	Spot liabilities HK\$'million	Forward purchases HK\$'million	Forward sales HK\$'million	Net long/(short) position HK\$'million	Structural assets HK\$'million
As at 31 December 2014						
USD	4,186	3,583	65	587	81	-
RMB	478	582	-	-	(104)	623
AUD	977	1,083	120	17	(3)	-
Others	528	954	476	52	(2)	-
	6,169	6,202	661	656	(28)	623

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

LIQUIDITY MAINTENANCE RATIO

With effect from 1 January 2015, the Group was required to comply with the liquidity maintenance ratio requirement pursuant to section 97H of the Banking Ordinance and the Banking (Liquidity) Rules. The former liquidity ratio requirement was superseded after the implementation of liquidity maintenance ratio in 2015.

Due to the changes in computation basis, the average liquidity maintenance ratio shown for 2015 is not directly comparable to the average liquidity ratio of 2014.

**For the six months ended
30 June 2015**

Consolidated average liquidity maintenance ratio	<u>43.9%</u>
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The Group calculates the average liquidity maintenance ratio of each calendar month by reference to positions of specified days approved by the HKMA pursuant to Rule 48(2) of the Banking (Liquidity) Rules.

The average liquidity maintenance ratio is computed on a consolidated basis using the arithmetic mean of each calendar month's average liquidity maintenance ratio as reported in the return relating to the liquidity position submitted to the HKMA.

LIQUIDITY RATIO

For the six months ended
30 June 2014

Consolidated average liquidity ratio	<u>48.4%</u>
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The average liquidity ratio is computed on a consolidated basis using the arithmetic mean of each calendar month's average liquidity ratio as reported in the return relating to the liquidity position submitted to the HKMA.

BUSINESS PERFORMANCE

For the six months ended 30 June 2015, the Group recorded a profit after tax of HK\$194.8 million, representing an increase of HK\$23.8 million or 13.9% as compared to the profit after tax of HK\$171.0 million for the corresponding period in 2014. The increase in earnings of the Group for the period under review was from increase in net interest income and higher contribution from fee-based business operations.

During the period under review, the Group's total interest income increased by HK\$38.3 million or 4.9% to HK\$821.2 million, and total interest expense increased by HK\$4.1 million or 2.4% to HK\$178.9 million. Consequently, net interest income increased by HK\$34.2 million or 5.6% to HK\$642.4 million in the period under review.

Other operating income from loan transactions, stockbroking and other businesses of the Group increased by HK\$17.3 million or 17.8% to HK\$114.2 million, mainly from higher contribution of the Group's stockbroking activities.

The Group's operating expenses increased by HK\$21.1 million or 5.6% to HK\$399.6 million mainly due to the increase in staff costs.

Impairment allowances for loans and advances and receivables increased by HK\$6.5 million or 5.5% to HK\$124.3 million. Impaired loans to total loans ratio improved by 0.03% to 0.45% as at 30 June 2015 from 0.48% as at 31 December 2014.

The Group's total loans and advances (including trade bills) grew by HK\$624.2 million or 2.2% to HK\$29.09 billion as at 30 June 2015 from HK\$28.46 billion as at 31 December 2014. The Group's deposits from customers also grew by HK\$3.44 billion or 10.9% to HK\$35.10 billion as at 30 June 2015 from HK\$31.66 billion as at 31 December 2014. Total assets of the Group stood at HK\$42.51 billion as at 30 June 2015.

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

Hong Kong, 16 July 2015