

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

Interim Financial Statements  
for the six months ended 30 June 2016

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

**INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016**

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 2016 with comparative figures as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

	Notes	<b>For the six months ended</b>	
		<b>2016</b>	<b>2015</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
Interest income	7	<b>811,840</b>	821,248
Interest expense	7	<b>(148,255)</b>	(178,853)
<b>NET INTEREST INCOME</b>		<b>663,585</b>	642,395
Other operating income	8	<b>96,445</b>	114,152
<b>OPERATING INCOME</b>		<b>760,030</b>	756,547
Operating expenses	9	<b>(397,298)</b>	(399,611)
Changes in fair value of investment properties		<b>(259)</b>	2,782
<b>OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES</b>		<b>362,473</b>	359,718
Impairment allowances for loans and advances and receivables	10	<b>(122,645)</b>	(124,338)
<b>PROFIT BEFORE TAX</b>		<b>239,828</b>	235,380
Tax	11	<b>(41,754)</b>	(40,577)
<b>PROFIT FOR THE PERIOD</b>		<b>198,074</b>	194,803
<b>ATTRIBUTABLE TO:</b>			
Owners of the Bank		<b>198,074</b>	194,803

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
<b>PROFIT FOR THE PERIOD</b>	<b>198,074</b>	194,803
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange loss on translating foreign operations, net of tax	<u>(16,026)</u>	<u>(170)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b><u>182,048</u></b>	<u>194,633</u>
<b>ATTRIBUTABLE TO:</b>		
Owners of the Bank	<b><u>182,048</u></b>	<u>194,633</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
	Notes		
<b>ASSETS</b>			
Cash and short term placements	13	4,906,524	3,927,210
Placements with banks and financial institutions maturing after one month but not more than twelve months	14	1,497,333	1,018,133
Derivative financial instruments	28	2,605	3,864
Loans and advances and receivables	15	28,739,316	29,290,179
Available-for-sale financial assets	16	6,804	6,804
Held-to-maturity investments	17	5,321,454	5,342,872
Interest in a joint venture		1,892	1,892
Deferred tax assets		23,465	25,771
Intangible assets	19	718	718
Property and equipment	20	77,416	67,346
Land held under finance leases	21	106,285	101,178
Investment properties	22	104,066	63,137
Goodwill		242,342	242,342
Other assets	18	164,330	143,317
<b>TOTAL ASSETS</b>		<b>41,194,550</b>	<b>40,234,763</b>
<b>EQUITY AND LIABILITIES</b>			
<b>LIABILITIES</b>			
Deposits and balances of banks and other financial institutions at amortised cost		956,425	984,093
Derivative financial instruments	28	745	588
Customer deposits at amortised cost	23	33,504,203	33,165,823
Certificates of deposit issued at amortised cost		1,072,869	499,977
Current tax payable		47,639	22,654
Deferred tax liabilities		8,038	7,420
Other liabilities	18	302,721	335,538
<b>TOTAL LIABILITIES</b>		<b>35,892,640</b>	<b>35,016,093</b>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK</b>			
Share capital	24	2,854,045	2,854,045
Reserves	25	2,447,865	2,364,625
<b>TOTAL EQUITY</b>		<b>5,301,910</b>	<b>5,218,670</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>41,194,550</b>	<b>40,234,763</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2016</b>	2015
	<b>(Unaudited)</b>	(Unaudited)
Note	<b>HK\$'000</b>	HK\$'000
<b>TOTAL EQUITY</b>		
Balance at the beginning of the period	<b>5,218,670</b>	5,033,804
Profit for the period	<b>198,074</b>	194,803
Other comprehensive income in translation reserve	<b>(16,026)</b>	(170)
Total comprehensive income for the period	<b>182,048</b>	194,633
Dividends paid in respect of previous year	12(b) <b>(98,808)</b>	(89,992)
Balance at the end of the period	<b>5,301,910</b>	5,138,445

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	For the six months ended	
		30 June	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>239,828</b>	235,380
Adjustments for:			
Dividend income from listed investments	8	<b>(39)</b>	(28)
Dividend income from unlisted investments	8	<b>(700)</b>	(800)
Depreciation of property and equipment and land held under finance leases	9	<b>10,653</b>	10,211
Decrease/(increase) in fair value of investment properties		<b>259</b>	(2,782)
Decrease in impairment allowances for loans and advances and receivables		<b>(3,902)</b>	(491)
Net losses on disposal of property and equipment		<b>7</b>	20
Exchange differences		<b>(16,197)</b>	(192)
Profits tax paid		<b>(13,845)</b>	(15,936)
Operating profit before changes in operating assets and liabilities		<b>216,064</b>	225,382
Decrease/(increase) in operating assets:			
Decrease/(increase) in placements with banks and financial institutions		<b>25,168</b>	(638,725)
Decrease in derivative financial instruments		<b>1,259</b>	379
Decrease/(increase) in loans and advances and receivables		<b>554,936</b>	(622,316)
Increase in held-to-maturity investments		<b>(72,850)</b>	(758,938)
Increase in other assets		<b>(21,013)</b>	(50,022)
		<b>487,500</b>	(2,069,622)
Increase in operating liabilities:			
(Decrease)/increase in deposits and balances of banks and other financial institutions at amortised cost		<b>(27,668)</b>	554
Increase in customer deposits at amortised cost		<b>338,380</b>	3,444,876
Increase/(decrease) in certificates of deposit issued at amortised cost		<b>572,892</b>	(166,015)
Increase in derivative financial instruments		<b>157</b>	1,660
(Decrease)/increase in other liabilities		<b>(32,817)</b>	131,191
		<b>850,944</b>	3,412,266
Net cash inflow from operating activities		<b>1,554,508</b>	1,568,026

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	For the six months ended	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property and equipment	20	(18,285)	(7,563)
Exchange differences		(9)	3
Purchases of investment properties	22	(48,731)	-
Sales proceeds from disposal of property and equipment		-	25
Dividends received from listed investments		39	28
Dividends received from unlisted investments		700	800
Net cash outflow from investing activities		<b>(66,286)</b>	<b>(6,707)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid on shares		<b>(98,808)</b>	<b>(89,992)</b>
Net cash outflow from financing activities		<b>(98,808)</b>	<b>(89,992)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>1,389,414</b>	<b>1,471,327</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<b>4,226,308</b>	<b>4,615,182</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>5,615,722</b>	<b>6,086,509</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and short term placements repayable on demand	13	<b>1,078,203</b>	1,088,485
Money at call and short notice with an original maturity within three months	13	<b>3,828,321</b>	4,468,518
Placements with banks and financial institutions with an original maturity within three months		<b>709,198</b>	438,423
Held-to-maturity investments with an original maturity within three months		-	91,083
		<b>5,615,722</b>	<b>6,086,509</b>



## NOTES TO INTERIM FINANCIAL STATEMENTS

### 1. CORPORATE AND GROUP INFORMATION

The Bank is a limited liability company and its registered office is located at 2/F, Public Bank Centre, 120 Des Voeux Road Central, Central, Hong Kong. During the period, the Group's principal activities were the provision of a comprehensive range of commercial and retail banking, financial and related services.

The Bank is a wholly-owned subsidiary of Public Financial Holdings Limited. In the opinion of the Directors, the ultimate holding company of the Bank is Public Bank Berhad, which is incorporated in Malaysia.

Particulars of the Bank's subsidiaries, which are incorporated and operate in Hong Kong, are as follows:

Name	Issued ordinary share capital HK\$	Percentage of equity attributable to the Bank		Principal activities
		Direct %	Indirect %	
Public Financial Securities Limited	48,000,000	100	-	Securities brokerage
Public Bank (Nominees) Limited	100,000	100	-	Provision of nominee services
Public Credit Limited	5,000,000	100	-	Dormant
Public Futures Limited	2	100	-	Dormant
Public Pacific Securities Limited	12,000,000	100	-	Dormant
Public Finance Limited	671,038,000	100	-	Deposit-taking and financing
Public Financial Limited	10,100,000	-	100	Investment holding
Public Securities Limited	10,000,000	-	100	Securities brokerage
Public Securities (Nominees) Limited	10,000	-	100	Provision of nominee services

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 2. 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 2015 Annual Report.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group’s 2015 Annual Report, except for the changes in accounting policies as set out in note 5 below.

### 3. 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 2016.

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Bank. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Bank has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (i) the contractual arrangement with the other vote holders of the investee;
- (ii) rights arising from other contractual arrangements; and
- (iii) the Group’s voting rights and potential voting rights.

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

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 3. BASIS OF CONSOLIDATION (Continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any 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.

The subsidiaries consolidated for accounting purpose are as follows:

Name	30 June 2016		31 December 2015		Principal activities
	Total assets (Unaudited)	Total equity (Unaudited)	Total assets (Audited)	Total equity (Audited)	
	HK\$	HK\$	HK\$	HK\$	
Public Financial Securities Limited	88,328,410	47,894,453	79,359,669	47,894,134	Securities brokerage
Public Bank (Nominees) Limited	100,000	100,000	100,000	100,000	Provision of nominee services
Public Credit Limited	2,471,985	2,471,985	2,471,985	2,471,985	Dormant
Public Futures Limited	1	1	1	1	Dormant
Public Pacific Securities Limited	4,724,546	4,724,546	4,625,458	4,625,458	Dormant
Public Finance Limited*	6,397,156,821	1,433,589,602	6,310,743,549	1,444,553,306	Deposit-taking and financing
Public Financial Limited	10,101,371	10,101,371	10,101,371	10,101,371	Investment holding
Public Securities Limited	176,827,695	150,094,116	168,435,297	148,796,008	Securities brokerage
Public Securities (Nominees) Limited	1,125,066	1,110,914	1,108,963	1,093,561	Provision of nominee services

\* The financial entity specified by the HKMA to form the basis of consolidation for regulatory reporting purpose in respect of common equity tier 1 ("CET1") capital ratio, tier 1 capital ratio, total capital ratio, capital conservation buffer ("CCB") ratio, countercyclical capital buffer ("CCyB") ratio, leverage ratio and liquidity maintenance ratio.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 4. 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 Limited (“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 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 adequacy ratios, the components of eligible regulatory capital as well as the levels of those ratios at which banking institutions are required to operate. The Capital Rules have been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision. Under the Capital Rules, the minimum capital ratio requirements are progressively increased during the period from 1 January 2013 to 1 January 2019, and include a phased introduction of a new CCB ratio 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 CCyB ratio ranging from 0% to 2.5%, have been implemented since 1 January 2016. The CCyB ratio requirement for 2016 is 0.625%.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 5. ACCOUNTING POLICIES

#### Changes in accounting policies and disclosures

The Hong Kong Institute of Certified Public Accountants (the “HKICPA”) has issued a number of revised Hong Kong Financial Reporting Standards (“HKFRSs”), which are generally effective for accounting periods beginning on or after 1 January 2016. The Group has adopted the following revised standards for the first time for the current period’s interim financial statements.

- |   |  |
|---|--|
| • Amendments to HKFRS 10 and HKAS 28 (2011)           | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> |
| • Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) | <i>Investment Entities: Applying the Consolidation Exception</i>                             |
| • Amendments to HKFRS 11                              | <i>Accounting for Acquisitions of Interests in Joint Operations</i>                          |
| • Amendments to HKAS 1                                | <i>Disclosure Initiative</i>   |
| • Amendments to HKAS 16 and HKAS 38                   | <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>                  |
| • Amendments to HKAS 16 and HKAS 41                   | <i>Agriculture : Bearer Plants</i>   |
| • Amendments to HKAS 27 (2011)                        | <i>Equity Method in Separate Financial Statements</i>  |
| • Annual Improvements 2012-2014 Cycle                 | Amendments to a number of HKFRSs   |

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 applied prospectively and do not have any material impact on the Group.

The narrow-scope amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the cost of applying the standards. The amendments do not have any impact to the Group.

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 do not have any impact to the Group as there was no interest acquired in a joint operation during the period.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 5. ACCOUNTING POLICIES (Continued)

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

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- (i) the materiality requirements in HKAS 1;
- (ii) that specific line items in the income statement and the statement of financial position may be disaggregated;
- (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
- (iv) that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the income statement. These amendments do not have any impact on the Group.

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. These amendments do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate its assets.

The financial information relating to the year ended 31 December 2015 that is included in the 2016 interim financial statements as comparative information does not constitute the Bank's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the audited financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Bank's external auditors have reported on those financial statements. The Independent Auditors' Report was unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 5. 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*<sup>1</sup>
- HKFRS 15 *Revenue from Contracts with Customers*<sup>1</sup>
- HKFRS 16 *Leases*<sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

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 is currently assessing the impact of the standard upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets.

HKFRS 15 establishes a new five-step model to account for 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 structured 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. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. For lessee accounting, the standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. For lessor accounting, the standard substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its lease as operating leases or finance leases, and to account for these two types of leases differently. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 6. 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

### 6. SEGMENT INFORMATION (Continued)

#### Operating segment information (Continued)

The following table discloses the revenue and profit information for operating segments for the six months ended 30 June 2016 and 2015.

	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	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
<b>Segment revenue</b>								
External:								
Net interest income	663,581	642,388	4	7	-	-	663,585	642,395
Other operating income:								
Fees and commission income	72,112	74,027	14,126	28,893	-	-	86,238	102,920
Others	5,747	7,156	7	(56)	4,453	4,132	10,207	11,232
Operating income	741,440	723,571	14,137	28,844	4,453	4,132	760,030	756,547
<b>Profit before tax</b>	233,075	216,567	3,444	12,878	3,309	5,935	239,828	235,380
Tax							(41,754)	(40,577)
<b>Profit for the period</b>							198,074	194,803
<b>Other segment information</b>								
Depreciation of property and equipment and land held under finance leases	(10,653)	(10,211)	-	-	-	-	(10,653)	(10,211)
Changes in fair value of investment properties	-	-	-	-	(259)	2,782	(259)	2,782
Impairment allowances for loans and advances and receivables	(122,645)	(124,338)	-	-	-	-	(122,645)	(124,338)
Net losses on disposal of property and equipment	(7)	(20)	-	-	-	-	(7)	(20)

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 6. SEGMENT INFORMATION (Continued)

#### Operating segment information (Continued)

The following table discloses certain assets and liabilities information regarding operating segments as at 30 June 2016 and 31 December 2015.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Segment assets other than intangible assets and goodwill	40,522,355	39,576,851	299,712	324,052	104,066	63,137	40,926,133	39,964,040
Intangible assets	-	-	718	718	-	-	718	718
Goodwill	242,342	242,342	-	-	-	-	242,342	242,342
<b>Segment assets</b>	<b>40,764,697</b>	<b>39,819,193</b>	<b>300,430</b>	<b>324,770</b>	<b>104,066</b>	<b>63,137</b>	<b>41,169,193</b>	<b>40,207,100</b>
Unallocated assets:								
Interests in a joint venture							1,892	1,892
Deferred tax assets and tax recoverable							23,465	25,771
<b>Total assets</b>							<b>41,194,550</b>	<b>40,234,763</b>
Segment liabilities	35,740,800	34,864,080	92,511	118,515	3,652	3,424	35,836,963	34,986,019
Unallocated liabilities:								
Deferred tax liabilities and tax payable							55,677	30,074
<b>Total liabilities</b>							<b>35,892,640</b>	<b>35,016,093</b>
<b>Other segment information</b>								
Additions to non-current assets – capital expenditure	67,016	17,137	-	-	-	-	67,016	17,137

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 6. 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 discloses the segment revenue information for geographical segments for the six months ended 30 June 2016 and 2015.

	For the six months ended	
	30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Segment revenue from external customers:		
Hong Kong	721,551	716,204
Mainland China	38,479	40,343
	<u>760,030</u>	<u>756,547</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 discloses the non-current assets information for geographical segments as at 30 June 2016 and 31 December 2015.

	30 June	31 December
	2016	2015
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Non-current assets:		
Hong Kong	515,539	458,688
Mainland China	17,180	17,925
	<u>532,719</u>	<u>476,613</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

### 7. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income from:		
Loans and advances and receivables	754,719	747,774
Short term placements and placements with banks	29,675	38,204
Held-to-maturity investments	27,446	35,270
	<b>811,840</b>	821,248
Interest expense on:		
Deposits from banks and financial institutions	8,019	2,066
Deposits from customers	140,189	176,721
Bank loans	47	66
	<b>148,255</b>	178,853

Interest income and interest expense for the six months ended 30 June 2016, 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\$811,840,000 and HK\$148,255,000 (2015: HK\$821,248,000 and HK\$178,853,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2016 amounted to HK\$2,802,000 (2015: HK\$1,947,000).

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 8. OTHER OPERATING INCOME

	For the six months ended	
	30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Fees and commission income:		
Retail and commercial banking	72,818	74,677
Wealth management services, stockbroking and securities management	14,126	28,893
	86,944	103,570
Less: Fees and commission expenses	(706)	(650)
Net fees and commission income	86,238	102,920
Gross rental income	4,481	4,153
Less: Direct operating expenses	(28)	(21)
Net rental income	4,453	4,132
Gains less losses arising from dealing in foreign currencies	2,481	11,510
Net gains/(losses) on derivative financial instruments	1,860	(5,863)
	4,341	5,647
Dividend income from listed investments	39	28
Dividend income from unlisted investments	700	800
Net losses on disposal of property and equipment	(7)	(20)
Others	681	645
	96,445	114,152

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 assets and financial liabilities designated at fair value through profit or loss for the six months ended 30 June 2016 and 2015.

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

### 9. OPERATING EXPENSES

	For the six months ended	
	30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Staff costs:		
Salaries and other staff costs	228,226	228,505
Pension contributions	10,372	10,583
Less: Forfeited contributions	(10)	-
Net contribution to retirement benefit schemes	10,362	10,583
	238,588	239,088
Other operating expenses:		
Operating lease rentals on leasehold buildings	31,587	30,932
Depreciation of property and equipment and land held under finance leases	10,653	10,211
Administrative and general expenses	34,433	34,385
Others	82,037	84,995
Operating expenses before changes in fair value of investment properties	397,298	399,611

At 30 June 2016 and 2015, 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 2016 arose in respect of staff who left the schemes during the period.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 10. IMPAIRMENT ALLOWANCES

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Net charge for/(write-back of) impairment losses and allowances:		
- loans and advances	122,684	123,660
- trade bills, accrued interest and receivables	(39)	678
	122,645	124,338
Net charge for/(write-back of) impairment losses and allowances:		
- individually assessed	123,877	122,455
- collectively assessed	(1,232)	1,883
	122,645	124,338
Of which:		
- new impairment losses and allowances (including any amount directly written off during the period)	192,924	209,809
- releases and recoveries	(70,279)	(85,471)
	122,645	124,338
Net charge to the consolidated income statement	122,645	124,338

There were no impairment allowances for financial assets other than loans and advances and receivables for the six months ended 30 June 2016 and 2015.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 11. TAX

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Current tax charge :		
Hong Kong	33,820	33,954
Overseas	5,010	6,145
Deferred tax charge, net	2,924	478
	<b>41,754</b>	<b>40,577</b>

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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 tax 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 (i.e. statutory tax rates) to the effective tax rates, are as follows:

	For the six months ended 30 June 2016 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<b>215,203</b>		<b>24,625</b>		<b>239,828</b>	
Tax at the applicable tax rate	35,509	16.5	6,156	25.0	41,665	17.4
Estimated tax effect of net expenses are not deductible	90	-	15	0.1	105	-
Estimated tax losses from previous periods utilised	(16)	-	-	-	(16)	-
Tax charge at the Group's effective rate	<b>35,583</b>	<b>16.5</b>	<b>6,171</b>	<b>25.1</b>	<b>41,754</b>	<b>17.4</b>



## NOTES TO INTERIM FINANCIAL STATEMENTS

### 11. TAX (Continued)

	For the six months ended 30 June 2015					
	(Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>210,304</u>		<u>25,076</u>		<u>235,380</u>	
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	<u>(1)</u>	-	<u>-</u>	-	<u>(1)</u>	-
Tax charge at the Group's effective rate	<u>34,289</u>	16.3	<u>6,288</u>	25.1	<u>40,577</u>	17.2

### 12. DIVIDENDS

#### (a) Dividends attributable to the interim period

	For the six months ended 30 June			
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$ per ordinary share	HK\$ per ordinary share	HK\$'000	HK\$'000
Interim dividend	<u>6.639</u>	6.324	<u>98,363</u>	93,696

The interim dividend was declared after the interim period and has not been recognised as a liability at the end of the interim period.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 12. DIVIDENDS (Continued)

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

	For the six months ended 30 June			
	2016 (Unaudited) HK\$ per ordinary share	2015 (Unaudited) HK\$ per ordinary share	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Final dividend in respect of the previous year	<b>6.669</b>	6.074	<b>98,808</b>	89,992

### 13. CASH AND SHORT TERM PLACEMENTS

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Cash on hand	<b>143,070</b>	158,304
Placements with banks and financial institutions	<b>935,133</b>	868,860
Money at call and short notice	<b>3,828,321</b>	2,900,046
	<b>4,906,524</b>	3,927,210

Over 90% (2015: 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.

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

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Placements with banks and financial institutions	<b>1,497,333</b>	1,018,133

Over 90% (2015: 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

### 15. LOANS AND ADVANCES AND RECEIVABLES

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Loans and advances to customers	<b>28,751,507</b>	29,264,683
Trade bills	<b>27,343</b>	64,552
Loans and advances, and trade bills	<b>28,778,850</b>	29,329,235
Accrued interest	<b>72,760</b>	77,277
Other receivables	<b>28,851,610 901</b>	29,406,512 935
Gross loans and advances and receivables	<b>28,852,511</b>	29,407,447
Less: Impairment allowances for loans and advances and receivables		
- individually assessed	<b>(98,712)</b>	(101,543)
- collectively assessed	<b>(14,483)</b>	(15,725)
	<b>(113,195)</b>	(117,268)
Loans and advances and receivables	<b>28,739,316</b>	29,290,179

Over 90% (2015: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (2015: 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

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

Loans and advances and receivables are summarised as follows:

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Neither past due nor impaired loans and advances and receivables	<b>28,243,923</b>	28,852,447
Past due but not impaired loans and advances and receivables	<b>445,578</b>	384,841
Individually impaired loans and advances	<b>160,094</b>	167,393
Individually impaired receivables	<b>2,916</b>	2,766
Gross loans and advances and receivables	<b>28,852,511</b>	29,407,447

About 68% (2015: 66%) 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

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

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

	30 June 2016 (Unaudited)		31 December 2015 (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	<b>88,834</b>	<b>0.31</b>	83,420	0.28
One year or less but over six months	<b>4,901</b>	<b>0.01</b>	14,168	0.05
Over one year	<b>10,979</b>	<b>0.04</b>	11,050	0.04
Loans and advances overdue for more than three months	<b>104,714</b>	<b>0.36</b>	108,638	0.37
Rescheduled loans and advances overdue for three months or less	<b>22,594</b>	<b>0.08</b>	35,162	0.12
Impaired loans and advances overdue for three months or less	<b>32,786</b>	<b>0.12</b>	23,593	0.08
Total overdue and impaired loans and advances	<b>160,094</b>	<b>0.56</b>	167,393	0.57

## NOTES TO INTERIM FINANCIAL STATEMENTS

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

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

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	<b>425</b>	251
One year or less but over six months	<b>167</b>	384
Over one year	<b>2,153</b>	1,972
Trade bills, accrued interest and other receivables overdue for more than three months	<b>2,745</b>	2,607
Impaired trade bills, accrued interest and other receivables overdue for three months or less	<b>171</b>	159
Total overdue and impaired trade bills, accrued interest and other receivables	<b>2,916</b>	2,766

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

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

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

	30 June 2016 (Unaudited)			31 December 2015 (Audited)		
	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
<b>(i) Analysis of overdue loans and advances and receivables</b>						
Loans and advances and receivables overdue for more than three months	<b>94,827</b>	<b>12,632</b>	<b>107,459</b>	98,497	12,748	111,245
Individual impairment allowances	<b>62,533</b>	<b>11,506</b>	<b>74,039</b>	69,128	11,457	80,585
Current market value and fair value of collateral			<b>34,966</b>			<b>41,782</b>
<b>(ii) Analysis of impaired loans and advances and receivables</b>						
Impaired loans and advances and receivables	<b>149,539</b>	<b>13,471</b>	<b>163,010</b>	157,303	12,856	170,159
Individual impairment allowances	<b>87,206</b>	<b>11,506</b>	<b>98,712</b>	89,978	11,565	101,543
Current market value and fair value of collateral			<b>104,806</b>			<b>100,854</b>

Over 90% (2015: over 90%) of the Group's gross loans and advances and receivables were 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

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

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

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	<b>34,966</b>	41,782
Covered portion of overdue loans and advances	<b>17,975</b>	22,053
Uncovered portion of overdue loans and advances	<b>86,739</b>	86,585

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

At 30 June 2016, the total value of repossessed assets of the Group amounted to HK\$22,680,000 (31 December 2015: Nil).



## NOTES TO INTERIM FINANCIAL STATEMENTS

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

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

	30 June 2016 (Unaudited)		31 December 2015 (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	<b>444,151</b>	<b>1.54</b>	383,544	1.31
Trade bills, accrued interest and other receivables overdue for three months or less	<b>1,427</b>		1,297	

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 15. 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 2016 (Unaudited) Collective impairment allowances HK\$'000	Total HK\$'000
At 1 January 2016	101,543	15,725	117,268
Amounts written off	(194,047)	-	(194,047)
Impairment losses and allowances charged to the consolidated income statement	192,869	55	192,924
Impairment losses and allowances released to the consolidated income statement	(68,992)	(1,287)	(70,279)
Net charge/(release) of impairment losses and allowances	123,877	(1,232)	122,645
Loans and advances and receivables recovered	67,500	-	67,500
Exchange difference	(161)	(10)	(171)
At 30 June 2016	<b>98,712</b>	<b>14,483</b>	<b>113,195</b>
Deducted from:			
Loans and advances	96,356	14,345	110,701
Trade bills, accrued interest and other receivables	2,356	138	2,494
	<b>98,712</b>	<b>14,483</b>	<b>113,195</b>

## NOTES TO INTERIM FINANCIAL STATEMENTS

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

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

	31 December 2015		
	(Audited)		
	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000	Total HK\$'000
At 1 January 2015	85,745	18,923	104,668
Amounts written off	(391,515)	-	(391,515)
Impairment losses and allowances charged to the consolidated income statement	414,376	311	414,687
Impairment losses and allowances released to the consolidated income statement	(154,469)	(3,493)	(157,962)
Net charge/(release) of impairment losses and allowances	259,907	(3,182)	256,725
Loans and advances and receivables recovered	148,005	-	148,005
Exchange difference	(599)	(16)	(615)
At 31 December 2015	101,543	15,725	117,268
Deducted from:			
Loans and advances	99,236	15,499	114,735
Trade bills, accrued interest and other receivables	2,307	226	2,533
	101,543	15,725	117,268

## NOTES TO INTERIM FINANCIAL STATEMENTS

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

#### (g) Finance lease receivables

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

	30 June 2016 (Unaudited)		31 December 2015 (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	375,230	281,310	354,284	268,568
In the second to fifth years, inclusive	1,099,127	797,087	1,022,499	749,935
Over five years	3,742,582	3,117,402	3,425,481	2,862,167
	<b>5,216,939</b>	<b>4,195,799</b>	4,802,264	3,880,670
Less: Unearned finance income	<b>(1,021,140)</b>		(921,594)	
Present value of minimum lease payments receivable	<b>4,195,799</b>		3,880,670	

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

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

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Unlisted equity investments in corporate entity, at fair value:		
At the beginning and at the end of the period/year	<b>6,804</b>	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.

### 17. HELD-TO-MATURITY INVESTMENTS

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Certificates of deposit held	<b>2,241,147</b>	2,816,789
Treasury bills and government bonds (including Exchange Fund Bills)	<b>1,739,917</b>	1,767,836
Other debt securities	<b>1,340,390</b>	758,247
	<b>5,321,454</b>	5,342,872
Listed or unlisted:		
- Listed in Hong Kong	<b>1,528,361</b>	1,557,815
- Listed outside Hong Kong	<b>72,826</b>	58,025
- Unlisted	<b>3,720,267</b>	3,727,032
	<b>5,321,454</b>	5,342,872
Analysed by types of issuers:		
- Central governments	<b>1,739,917</b>	1,767,836
- Banks and other financial institutions	<b>3,581,537</b>	3,575,036
	<b>5,321,454</b>	5,342,872

There were no impairment allowances made against held-to-maturity investments as at 30 June 2016 and 31 December 2015. There were no movements in impairment allowances for the period ended 30 June 2016 and for the year ended 31 December 2015.

There were neither impaired nor overdue held-to-maturity investments as at 30 June 2016 and 31 December 2015.

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 2016 and 31 December 2015.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 18. OTHER ASSETS AND OTHER LIABILITIES

#### Other assets

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Interest receivables from financial institutions	<b>12,244</b>	16,638
Other debtors, deposits and prepayments	<b>127,709</b>	104,755
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	<b>24,377</b>	21,924
	<b>164,330</b>	143,317

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

#### Other liabilities

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Interest payable	<b>70,819</b>	92,262
Creditors, accruals and other payables	<b>230,131</b>	243,276
Net amount of accounts payable to HKSCC	<b>1,771</b>	-
	<b>302,721</b>	335,538

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 19. INTANGIBLE ASSETS

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (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 (2015: five units) of Stock Exchange Trading Right and one unit (2015: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 20. 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 2016	17,745	223,663	241,408
Transfer from investment properties	698	-	698
Additions	-	18,285	18,285
Disposals/write-off	-	(1,848)	(1,848)
At 30 June 2016	<u>18,443</u>	<u>240,100</u>	<u>258,543</u>
Accumulated depreciation:			
At 1 January 2016	6,475	167,587	174,062
Provided during the period	206	8,709	8,915
Disposals/write-off	-	(1,841)	(1,841)
Exchange difference	(9)	-	(9)
At 30 June 2016	<u>6,672</u>	<u>174,455</u>	<u>181,127</u>
Net carrying amount:			
At 30 June 2016	<u>11,771</u>	<u>65,645</u>	<u>77,416</u>
At 31 December 2015 (Audited)	<u>11,270</u>	<u>56,076</u>	<u>67,346</u>



## NOTES TO INTERIM FINANCIAL STATEMENTS

### 20. 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 2015	17,745	209,725	227,470
Additions	-	17,137	17,137
Disposals/write-off	-	(3,199)	(3,199)
At 31 December 2015	17,745	223,663	241,408
Accumulated depreciation:			
At 1 January 2015	6,086	153,975	160,061
Provided during the year	453	16,757	17,210
Disposals/write-off	-	(3,145)	(3,145)
Exchange difference	(64)	-	(64)
At 31 December 2015	6,475	167,587	174,062
Net carrying amount:			
At 31 December 2015	11,270	56,076	67,346
At 31 December 2014	11,659	55,750	67,409

There were no impairment allowances made against the above items of property and equipment as at 30 June 2016 and 31 December 2015. There were no movements in impairment allowances for the period ended 30 June 2016 and for the year ended 31 December 2015.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 21. LAND HELD UNDER FINANCE LEASES

	<b>HK\$'000</b>
Cost:	
At 1 January 2015, 31 December 2015 and 1 January 2016 (Audited)	<b>143,621</b>
Transfer from investment properties	<b>6,845</b>
	<hr/>
At 30 June 2016 (Unaudited)	<b>150,466</b>
	<hr/>
Accumulated depreciation and impairment:	
At 1 January 2015	39,000
Depreciation provided during the year	3,443
	<hr/>
At 31 December 2015 and 1 January 2016 (Audited)	<b>42,443</b>
Depreciation provided during the period	<b>1,738</b>
	<hr/>
At 30 June 2016 (Unaudited)	<b>44,181</b>
	<hr/>
Net carrying amount:	
At 30 June 2016 (Unaudited)	<b>106,285</b>
	<hr/>
At 31 December 2015 (Audited)	<b>101,178</b>
	<hr/>

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

### 22. INVESTMENT PROPERTIES

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Carrying amount at the beginning of the period/year	<b>63,137</b>	61,263
Transfer to property and equipment	<b>(698)</b>	-
Transfer to land held under finance leases	<b>(6,845)</b>	-
Additions	<b>48,731</b>	-
Changes in fair value recognised in consolidated income statement	<b>(259)</b>	1,874
Carrying amount at the end of the period/year	<b>104,066</b>	63,137

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 2015: Nil). The Group has assessed that the highest and best use of its properties did not differ from their existing use.

At 30 June 2016, 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

### 22. 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 2016 (Unaudited)		31 December 2015 (Audited)	
	Range	Weighted average	Range	Weighted average
	HK\$	HK\$	HK\$	HK\$
Price per square metre	73,000 to 472,000	345,000	72,000 to 474,000	221,000

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 27(a) to the interim financial statements.

### 23. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Demand deposits and current accounts	3,175,636	3,125,943
Savings deposits	5,145,157	5,143,268
Time, call and notice deposits	25,183,410	24,896,612
	<b>33,504,203</b>	<b>33,165,823</b>

### 24. SHARE CAPITAL

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Issued and fully paid: 14,816,000 (2015: 14,816,000) ordinary shares	<b>2,854,045</b>	<b>2,854,045</b>

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 25. RESERVES

	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 2015	3,065	17,660	438,935	1,651,946	
Profit for the year	-	-	-	394,526	-	394,526
Other comprehensive income	-	-	-	-	(25,971)	(25,971)
Transfer from retained profits	-	-	16,507	(16,507)	-	-
Dividends paid in respect of previous year	-	-	-	(89,992)	-	(89,992)
Dividends paid in respect of current year	-	-	-	(93,697)	-	(93,697)
At 31 December 2015 and 1 January 2016 (Audited)	<b>3,065</b>	<b>17,660</b>	<b>455,442</b>	<b>1,846,276</b>	<b>42,182</b>	<b>2,364,625</b>
Profit for the period	-	-	-	<b>198,074</b>	-	<b>198,074</b>
Other comprehensive income	-	-	-	-	<b>(16,026)</b>	<b>(16,026)</b>
Transfer to retained profits	-	-	<b>(20,755)</b>	<b>20,755</b>	-	-
Dividends paid in respect of previous year	-	-	-	<b>(98,808)</b>	-	<b>(98,808)</b>
At 30 June 2016 (Unaudited)	<b>3,065</b>	<b>17,660</b>	<b>434,687</b>	<b>1,966,297</b>	<b>26,156</b>	<b>2,447,865</b>

Note:

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

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 26. OFF-BALANCE SHEET EXPOSURE

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

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

	30 June 2016 (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	77,061	77,061	70,984	-	-
Transaction-related contingencies	11,089	5,545	992	-	-
Trade-related contingencies	50,534	10,106	8,767	-	-
Forward forward deposits placed	473,205	473,205	94,641	-	-
Forward asset purchases	433	433	87	-	-
	<b>612,322</b>	<b>566,350</b>	<b>175,471</b>	<b>-</b>	<b>-</b>
Derivatives held for trading :					
Foreign exchange rate contracts	683,295	9,439	1,893	2,605	745
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	4,000	2,000	2,000	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,884,093	-	-	-	-
	<b>4,183,710</b>	<b>577,789</b>	<b>179,364</b>	<b>2,605</b>	<b>745</b>
				<b>30 June 2016 (Unaudited) Contractual amount HK\$'000</b>	
Capital commitments contracted for, but not provided in the consolidated statement of financial position				<b>9,813</b>	

## NOTES TO INTERIM FINANCIAL STATEMENTS

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

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

	31 December 2015 (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	171,846	171,846	89,632	-	-
Transaction-related contingencies	14,363	7,181	1,649	-	-
Trade-related contingencies	45,298	9,060	6,660	-	-
Forward forward deposits placed	-	-	-	-	-
Forward asset purchases	1,513	1,513	303	-	-
	233,020	189,600	98,244	-	-
Derivatives held for trading :					
Foreign exchange rate contracts	2,344,121	27,040	4,894	3,864	588
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	17,333	8,667	8,667	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,876,373	-	-	-	-
	6,470,847	225,307	111,805	3,864	588

31 December 2015  
(Audited)  
Contractual  
amount  
HK\$'000

Capital commitments contracted for, but not provided in the consolidated statement of financial position

17,031

## NOTES TO INTERIM FINANCIAL STATEMENTS

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

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

The Group had not entered into any bilateral netting arrangements and accordingly the above amounts are shown on a gross basis. The credit risk-weighted amounts are calculated in accordance with the 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 2016 and 31 December 2015, 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

### 27. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

The Group leases its investment properties in note 22 under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

At 30 June 2016 and 31 December 2015, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Within one year	<b>2,624</b>	2,875
In the second to fifth years, inclusive	<b>965</b>	1,891
	<b>3,589</b>	4,766

#### (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 10 years.

At 30 June 2016 and 31 December 2015, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Within one year	<b>90,523</b>	91,783
In the second to fifth years, inclusive	<b>58,452</b>	49,486
Over five years	<b>335</b>	382
	<b>149,310</b>	141,651

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 28. 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 2016 (Unaudited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets:				
Derivative financial instruments	-	2,605	-	2,605
Available-for-sale financial assets	-	-	6,804	6,804
	-	2,605	6,804	9,409
Financial liabilities:				
Derivative financial instruments	-	745	-	745

## NOTES TO INTERIM FINANCIAL STATEMENTS

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

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

	31 December 2015 (Audited)			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets:				
Derivative financial instruments	-	3,864	-	3,864
Available-for-sale financial assets	-	-	6,804	6,804
	-	3,864	6,804	10,668
Financial liabilities:				
Derivative financial instruments	-	588	-	588

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 2016, 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 2016 and the year ended 31 December 2015, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the period ended 30 June 2016 and the year ended 31 December 2015, 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 2016 and the year ended 31 December 2015.

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

### 29. 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 2016 (Unaudited)							
	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
<b>Financial assets:</b>								
Cash and short term placements	1,078,203	3,828,321	-	-	-	-	-	4,906,524
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	1,048,700	448,633	-	-	-	1,497,333
Loans and advances and receivables (gross)	983,700	1,377,186	1,168,826	2,884,875	6,382,788	15,892,127	163,009	28,852,511
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	99,977	645,295	3,489,124	1,087,058	-	-	5,321,454
Other assets	196	71,370	8,917	28,266	-	-	55,581	164,330
Foreign exchange contracts (gross)	-	456,785	226,510	-	-	-	-	683,295
<b>Total financial assets</b>	<b>2,062,099</b>	<b>5,833,639</b>	<b>3,098,248</b>	<b>6,850,898</b>	<b>7,469,846</b>	<b>15,892,127</b>	<b>225,394</b>	<b>41,432,251</b>
<b>Financial liabilities:</b>								
Deposits and balances of banks and other financial institutions at amortised cost	54,064	630,626	50,000	221,735	-	-	-	956,425
Customer deposits at amortised cost	8,346,234	8,808,519	11,056,934	5,283,887	8,629	-	-	33,504,203
Certificates of deposit issued at amortised cost	-	-	-	1,072,869	-	-	-	1,072,869
Other liabilities	118	98,689	21,088	21,873	8,750	-	152,203	302,721
Foreign exchange contracts (gross)	-	454,984	226,451	-	-	-	-	681,435
<b>Total financial liabilities</b>	<b>8,400,416</b>	<b>9,992,818</b>	<b>11,354,473</b>	<b>6,600,364</b>	<b>17,379</b>	<b>-</b>	<b>152,203</b>	<b>36,517,653</b>
<b>Net liquidity gap</b>	<b>(6,338,317)</b>	<b>(4,159,179)</b>	<b>(8,256,225)</b>	<b>250,534</b>	<b>7,452,467</b>	<b>15,892,127</b>	<b>73,191</b>	<b>4,914,598</b>
	31 December 2015 (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
<b>Financial assets:</b>								
Cash and short term placements	1,027,164	2,900,046	-	-	-	-	-	3,927,210
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	444,339	573,794	-	-	-	1,018,133
Loans and advances and receivables (gross)	965,259	1,704,689	1,793,036	3,093,102	6,356,996	15,324,206	170,159	29,407,447
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	204,276	792,086	3,313,255	1,033,255	-	-	5,342,872
Other assets	72	55,780	6,457	33,707	-	-	47,301	143,317
Foreign exchange contracts (gross)	-	1,521,753	512,407	309,961	-	-	-	2,344,121
<b>Total financial assets</b>	<b>1,992,495</b>	<b>6,386,544</b>	<b>3,548,325</b>	<b>7,323,819</b>	<b>7,390,251</b>	<b>15,324,206</b>	<b>224,264</b>	<b>42,189,904</b>
<b>Financial liabilities:</b>								
Deposits and balances of banks and other financial institutions at amortised cost	49,824	674,269	200,000	60,000	-	-	-	984,093
Customer deposits at amortised cost	8,285,703	8,947,867	10,517,342	5,396,063	18,848	-	-	33,165,823
Certificates of deposit issued at amortised cost	-	-	499,977	-	-	-	-	499,977
Other liabilities	92	81,482	22,279	50,389	2,381	-	178,915	335,538
Foreign exchange contracts (gross)	-	1,519,405	511,681	309,759	-	-	-	2,340,845
<b>Total financial liabilities</b>	<b>8,335,619</b>	<b>11,223,023</b>	<b>11,751,279</b>	<b>5,816,211</b>	<b>21,229</b>	<b>-</b>	<b>178,915</b>	<b>37,326,276</b>
<b>Net liquidity gap</b>	<b>(6,343,124)</b>	<b>(4,836,479)</b>	<b>(8,202,954)</b>	<b>1,507,608</b>	<b>7,369,022</b>	<b>15,324,206</b>	<b>45,349</b>	<b>4,863,628</b>

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 30. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise customer deposits and certificates of deposit issued. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as cash and short term placements, held-to-maturity investments, loans and advances and receivables, and available-for-sale financial assets, 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 Group's business activities comprise retail and commercial banking services. These activities expose the Group to a variety of risks, mainly 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 structure**

The Group's 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 ("CRMC"), 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.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### **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.

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

#### **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 2016, 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\$12 million (31 December 2015: HK\$6 million) mainly as a result of foreign exchange impact arising from net structural position of RMB denominated operating capital.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Market risk management (Continued)

##### (a) Currency risk (Continued)

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

	Spot assets HK\$'million	Spot liabilities HK\$'million	Forward purchases HK\$'million	Forward sales HK\$'million	Net long/(short) position HK\$'million	Structural assets HK\$'million
<b>At 30 June 2016</b>						
USD	4,118	4,007	284	395	-	-
RMB	574	548	-	1	25	1,164
AUD	941	948	11	6	(2)	-
Others	936	1,001	174	110	(1)	-
	<b>6,569</b>	<b>6,504</b>	<b>469</b>	<b>512</b>	<b>22</b>	<b>1,164</b>

	Spot assets HK\$'million	Spot liabilities HK\$'million	Forward purchases HK\$'million	Forward sales HK\$'million	Net long/(short) position HK\$'million	Structural assets HK\$'million
<b>At 31 December 2015</b>						
USD	4,855	3,467	477	1,863	2	-
RMB	662	642	1	2	19	590
AUD	858	943	236	153	(2)	-
Others	807	952	162	18	(1)	-
	<b>7,182</b>	<b>6,004</b>	<b>876</b>	<b>2,036</b>	<b>18</b>	<b>590</b>

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Market risk management (Continued)

##### (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.

#### 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 approved by respective Boards or dedicated committees). 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 exposure 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.



## NOTES TO INTERIM FINANCIAL STATEMENTS

### 30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

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.

CRMC of the Bank is responsible for establishing the framework for identifying, measuring, monitoring and controlling the credit risk of existing and new products. The Committee reviews credit risk management policies and credit risk tolerance limits, and reports to the RMC.

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 15 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 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 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 Group.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Liquidity risk management (Continued)

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 developing operational procedures and controls to ensure the compliance with the aforesaid policies and to minimise operational disruptions in case of a liquidity crisis.

Risk Management Departments of the Bank and Public Finance are responsible for day-to-day monitoring of liquidity maintenance ratios, loans to deposits ratios, concentration risk 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. They also 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 RMCs 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.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Liquidity risk management (Continued)

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 emergency 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 intra-group 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 cash flow 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.

The Group maintains sufficient liquidity cushion comprising mainly bills, notes or bonds issued by eligible central governments in total amount not less than HK\$1.5 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 treasury bills or 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.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Liquidity risk management (Continued)

##### Liquidity maintenance ratio

The Group was required to comply with the liquidity maintenance ratio requirement pursuant to section 97H of the Hong Kong Banking Ordinance and the Banking (Liquidity) Rules.

	For the six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Consolidated average liquidity maintenance ratio	<u>46.7%</u>	43.9%

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.

##### **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

### 30. 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 the basic indicator approach and the standardised approach for the calculation of operational risk-weighted exposures of the Bank and Public Finance, respectively.

	<b>30 June 2016 (Unaudited)</b>	31 December 2015 (Audited)
Consolidated CET1 Capital Ratio	<b>16.6%</b>	16.8%
Consolidated Tier 1 Capital Ratio	<b>16.6%</b>	16.8%
Consolidated Total Capital Ratio	<b>17.8%</b>	18.0%

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

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Capital management (Continued)

#### Capital disclosures

The components of capital base include the following items:

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
CET1 capital instruments	<b>2,854,045</b>	2,854,045
Retained earnings	<b>1,858,457</b>	1,740,072
Disclosed reserves	<b>464,503</b>	501,284
CET1 capital before deduction	<b>5,177,005</b>	5,095,401
Deduct:		
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	<b>(25,955)</b>	(26,214)
Regulatory reserve for general banking risk	<b>(434,687)</b>	(455,442)
Goodwill	<b>(242,342)</b>	(242,342)
Deferred tax assets in excess of deferred tax liabilities	<b>(14,125)</b>	(17,077)
CET1 capital after deduction	<b>4,459,896</b>	4,354,326
Additional Tier 1 capital	<b>-</b>	-
Tier 1 capital after deductions	<b>4,459,896</b>	4,354,326
Reserve attributable to fair value gains	<b>11,680</b>	11,796
Regulatory reserve for general banking risk	<b>277,533</b>	272,259
Collective provisions	<b>14,483</b>	15,725
	<b>292,016</b>	287,984
Tier 2 capital	<b>303,696</b>	299,780
Capital base	<b>4,763,592</b>	4,654,106

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Capital management (Continued)

#### Capital conservation buffer (CCB)

The Group is subject to the 2.5% CCB ratio which has been phased-in from 2016. The applicable CCB ratio effective from 1 January 2016 is 0.625%. The Group has reserved a capital buffer for the 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 CCB.

The Group has reserved a capital buffer for the implementation of CCyB ratio, inclusive of CCyB ratio of 0.625%, to the private sector credit exposures in Hong Kong that has been applied since 1 January 2016.

The following table illustrates the geographical breakdown of risk-weighted amounts (“RWA”) in relation to private sector credit exposures:

As at 30 June 2016 (unaudited)

Jurisdiction (“J”)	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK\$’000	CCyB ratio %	CCyB amount HK\$’000
1. Hong Kong	0.625	17,863,650		
2. Mainland China	0.000	1,828,623		
Total		19,692,273	0.567	111,648

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

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Capital management (Continued)

##### 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 Instruction of the Quarterly Template on Leverage Ratio.

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Consolidated Tier 1 Capital	<b>4,459,896</b>	4,354,326
Consolidated Exposure Measure for Leverage Ratio	<b>41,428,873</b>	40,204,730
Consolidated Leverage Ratio	<b>10.8%</b>	10.8%

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 Bank’s website: [www.publicbank.com.hk](http://www.publicbank.com.hk) on or before 30 September 2016.



## NOTES TO INTERIM FINANCIAL STATEMENTS

### 30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Capital management (Continued)

##### Principal subsidiaries and basis of consolidation

The basis of consolidation for financial accounting purposes is in accordance with HKFRSs, as described in note 3 to the interim 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 ratios of the Group are Public Bank (Nominees) Limited, Public Credit Limited, Public Futures Limited, Public Pacific Securities Limited, Public Financial Securities Limited, Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited.

Details of the Bank's subsidiaries are set out in note 1 to the interim financial statements.

##### 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 the Bank's website: [www.publicbank.com.hk](http://www.publicbank.com.hk) on or before 30 September 2016.

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.

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

		<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
	Note		
<b>CET1 capital instruments issued by the Bank</b>			
Ordinary shares:			
14,816,000 issued and fully paid ordinary shares	24	<b>2,854,045</b>	2,854,045

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

### (A) 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 2016									
	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	416,786	118	163	-	-	400,361	96.1	163	-	
Building and construction, property development and investment										
Property development	145,756	29	-	-	-	144,543	99.2	-	-	
Property investment	6,239,409	1,235	10,604	1,348	-	6,046,250	96.9	19,216	521	
Civil engineering works	143,212	48	-	2	133	52,064	36.4	-	-	
Electricity and gas	558	-	-	-	-	558	100.0	-	-	
Recreational activities	26,510	5	-	-	-	26,354	99.4	-	-	
Information technology	4,149	1	-	-	-	4,149	100.0	-	-	
Wholesale and retail trade	257,318	82	-	59	613	232,875	90.5	-	-	
Transport and transport equipment	4,165,540	757	1,908	182	764	4,137,596	99.3	2,178	1,844	
Hotels, boarding houses and catering	149,805	30	-	-	-	139,932	93.4	-	-	
Financial concerns	247,935	49	-	-	-	160,244	64.6	-	-	
Stockbrokers										
Margin lending	418,980	83	-	-	-	243,195	58.0	-	-	
Others	2,301	-	-	-	-	2,301	100.0	-	-	
Non-stockbroking companies and individuals for the purchase of shares										
Margin lending	67,496	13	-	-	-	44,905	66.5	-	-	
Others	98,837	19	-	-	-	97,037	98.2	-	-	
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	72,397	14	-	-	-	72,397	100.0	-	-	
Loans for the purchase of other residential properties	8,916,113	1,671	2,786	2,790	-	8,913,327	100.0	27,737	16,721	
Loans for credit card advances	11,394	2	16	65	69	-	-	59	28	
Loans for other business purposes	24,164	5	-	-	-	24,164	100.0	-	-	
Loans for other private purposes	3,877,942	8,810	71,396	187,747	191,558	236,904	6.1	96,777	75,013	
Trade finance	839,473	165	-	-	-	797,289	95.0	2,548	-	
Other loans and advances	82,156	16	-	-	-	77,162	93.9	-	-	
Sub-total	26,208,231	13,152	86,873	192,193	193,137	21,853,607	83.4	148,678	94,127	
Loans and advances for use outside Hong Kong	2,543,276	1,193	9,483	581	895	2,435,679	95.8	11,416	10,587	
Total loans and advances (excluding trade bills and other receivables)	28,751,507	14,345	96,356	192,774	194,032	24,289,286	84.5	160,094	104,714	

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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

	31 December 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	693,231	196	265	596	362	664,341	95.8	265	265
Building and construction, property development and investment									
Property development	298,601	68	-	-	-	298,552	100.0	-	-
Property investment	6,189,315	1,421	9,260	9,262	-	5,992,628	96.8	24,405	9,260
Civil engineering works	132,921	48	580	587	-	43,105	32.4	580	580
Electricity and gas	582	-	-	-	-	582	100.0	-	-
Recreational activities	25,776	6	-	1	-	25,766	100.0	-	-
Information technology	4,535	1	-	-	-	4,535	100.0	-	-
Wholesale and retail trade	200,119	98	859	1,480	1,012	177,739	88.8	859	859
Transport and transport equipment	3,852,832	802	2,547	2,605	-	3,818,607	99.1	2,604	2,547
Hotels, boarding houses and catering	136,149	31	-	-	-	124,426	91.4	-	-
Financial concerns	335,918	77	-	-	-	201,530	60.0	-	-
Stockbrokers									
Margin lending	607,316	139	-	-	-	434,925	71.6	-	-
Others	-	-	-	-	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	131,660	30	-	-	-	101,369	77.0	-	-
Others	84,309	19	-	-	-	82,508	97.9	407	-
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	80,909	19	-	-	-	80,909	100.0	-	-
Loans for the purchase of other residential properties	8,944,032	1,943	-	79	-	8,944,032	100.0	14,588	8,488
Loans for credit card advances	12,034	3	23	134	112	-	-	23	9
Loans for other business purposes	24,748	6	-	-	-	24,748	100.0	-	-
Loans for other private purposes	4,002,251	8,949	75,622	389,914	387,828	267,771	6.7	104,782	72,770
Trade finance	889,528	204	-	94	183	824,825	92.7	7,480	2,564
Other loans and advances	89,108	20	-	-	-	83,908	94.2	-	-
Sub-total	26,735,874	14,080	89,156	404,752	389,497	22,196,806	83.0	155,993	97,342
Loans and advances for use outside Hong Kong	2,528,809	1,419	10,080	8,207	1,889	2,377,050	94.0	11,400	11,296
Total loans and advances (excluding trade bills and other receivables)	29,264,683	15,499	99,236	412,959	391,386	24,573,856	84.0	167,393	108,638

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)

### (B) INTERNATIONAL CLAIMS

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 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 the Group's 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 private sector HK\$'million	Total HK\$'million
<b>At 30 June 2016</b>				
1. Developed countries*	2,435	464	379	3,278
2. Offshore centres, of which	848	2	1,889	2,739
- Hong Kong	363	2	1,685	2,050
3. Developing Asia-Pacific, of which	3,725	608	1,111	5,444
- China	1,990	608	1,056	3,654
	Banks HK\$'million	Official sector HK\$'million	Non-bank private sector HK\$'million	Total HK\$'million
<b>At 31 December 2015</b>				
1. Developed countries*	2,410	495	217	3,122
2. Offshore centres, of which	377	2	2,275	2,654
- Hong Kong	226	2	1,893	2,121
3. Developing Asia-Pacific, of which	3,693	622	1,219	5,534
- China	2,187	622	1,155	3,964

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

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

### (C) MAINLAND ACTIVITIES

The following table illustrates the disclosure required to be made in respect of the Bank'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
<b>At 30 June 2016</b>			
Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs") People's Republic of China ("PRC") nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	298	-	298
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	965	56	1,021
	2	-	2
<b>Total</b>	<b>1,265</b>	<b>56</b>	<b>1,321</b>
Total assets after provision	<b>37,152</b>		
On-balance sheet exposures as percentage of total assets	<b>3.40%</b>		
Types of counterparties	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total HK\$'million
<b>At 31 December 2015</b>			
Central government, central government-owned entities and their subsidiaries and JVs	320	-	320
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	1,320	138	1,458
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	2	-	2
<b>Total</b>	<b>1,642</b>	<b>138</b>	<b>1,780</b>
Total assets after provision	<b>36,231</b>		
On-balance sheet exposures as percentage of total assets	<b>4.53%</b>		

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.

## **BUSINESS PERFORMANCE**

For the six months ended 30 June 2016, the Group recorded a profit after tax of HK\$198.1 million, representing an increase of HK\$3.3 million or 1.7% as compared to the profit after tax of HK\$194.8 million for the corresponding period in 2015. The increase in earnings of the Group was attributed to the increase in net interest income for the period under review.

During the period under review, the Group's total interest income decreased by HK\$9.4 million or 1.1% to HK\$811.8 million, and total interest expense decreased by HK\$30.6 million or 17.1% to HK\$148.3 million from decline in funding cost of customer deposits in the period under review. Consequently, net interest income increased by HK\$21.2 million or 3.3% to HK\$663.6 million.

Other operating income from loan transactions, stockbroking and other businesses of the Group decreased by HK\$17.7 million or 15.5% to HK\$96.4 million, mainly due to lower income from the Group's stockbroking activities.

The Group's operating expenses decreased slightly by HK\$2.3 million or 0.6% to HK\$397.3 million.

Impairment allowances for loans and advances and receivables decreased by HK\$1.7 million or 1.4% to HK\$122.6 million. Impaired loans to total loans ratio improved slightly by 0.01% to 0.56% as at 30 June 2016 from 0.57% as at 31 December 2015.

The Group's total loans and advances (including trade bills) decreased by HK\$550.4 million or 1.9% to HK\$28.78 billion as at 30 June 2016 from HK\$29.33 billion as at 31 December 2015. The Group's deposits from customers grew by HK\$338.4 million or 1.0% to HK\$33.50 billion as at 30 June 2016 from HK\$33.17 billion as at 31 December 2015. Total assets of the Group stood at HK\$41.19 billion as at 30 June 2016.

The Group will continue to focus on its retail and commercial banking business and its customer financing business, and continue its prudent loan business strategies.

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

22 July 2016