

PUBLIC BANK (HONG KONG) LIMITED

Interim Financial Statements
for the six months ended 30 June 2017

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

INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

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 2017 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended	
		2017	2016
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Interest income	7	851,338	811,840
Interest expense	7	(174,419)	(148,255)
NET INTEREST INCOME		676,919	663,585
Other operating income	8	105,539	96,445
OPERATING INCOME		782,458	760,030
Operating expenses	9	(422,334)	(397,298)
Changes in fair value of investment properties		2,122	(259)
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		362,246	362,473
Impairment allowances for loans and advances and receivables	10	(74,539)	(122,645)
PROFIT BEFORE TAX		287,707	239,828
Tax	11	(52,375)	(41,754)
PROFIT FOR THE PERIOD		235,332	198,074
ATTRIBUTABLE TO:			
Owners of the Bank		235,332	198,074

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	235,332	198,074
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange gain/(loss) on translating foreign operations, net of tax	<u>39,271</u>	<u>(16,026)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>274,603</u>	<u>182,048</u>
ATTRIBUTABLE TO:		
Owners of the Bank	<u>274,603</u>	<u>182,048</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
	Notes		
ASSETS			
Cash and short term placements	13	5,008,831	4,255,829
Placements with banks and financial institutions maturing after one month but not more than twelve months	14	1,861,022	2,222,825
Derivative financial instruments	28	9,604	412
Loans and advances and receivables	15	28,564,299	28,807,836
Available-for-sale financial assets	16	6,804	6,804
Held-to-maturity investments	17	5,435,313	5,693,861
Interest in a joint venture		1,606	1,606
Deferred tax assets		21,928	28,247
Tax recoverable		5,152	10,055
Intangible assets	19	718	718
Property and equipment	20	87,231	88,741
Land held under finance leases	21	102,642	104,464
Investment properties	22	108,209	106,087
Goodwill		242,342	242,342
Other assets	18	175,639	128,995
TOTAL ASSETS		41,631,340	41,698,822
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		537,974	929,392
Derivative financial instruments	28	1,667	23,157
Customer deposits at amortised cost	23	34,410,653	33,879,348
Certificates of deposit issued at amortised cost		752,845	1,072,778
Current tax payable		38,095	14,060
Deferred tax liabilities		11,961	11,738
Other liabilities	18	335,180	402,172
TOTAL LIABILITIES		36,088,375	36,332,645
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK			
Share capital	24	2,854,045	2,854,045
Reserves	25	2,688,920	2,512,132
TOTAL EQUITY		5,542,965	5,366,177
TOTAL EQUITY AND LIABILITIES		41,631,340	41,698,822

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended	
	30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Note	HK\$'000	HK\$'000
TOTAL EQUITY		
Balance at the beginning of the period	5,366,177	5,218,670
Profit for the period	235,332	198,074
Other comprehensive income in translation reserve	39,271	(16,026)
Total comprehensive income for the period	274,603	182,048
Dividends paid in respect of previous year	12(b) (97,815)	(98,808)
Balance at the end of the period	5,542,965	5,301,910

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		For the six months ended	
		30 June	
		2017	2016
		(Unaudited)	(Unaudited)
Notes		HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
	Profit before tax	287,707	239,828
	Adjustments for:		
	Dividend income from listed investments	8 (45)	(39)
	Dividend income from unlisted investments	8 (700)	(700)
	Depreciation of property and equipment and land held under finance leases	9 11,265	10,653
	(Increase)/decrease in fair value of investment properties	(2,122)	259
	Decrease in impairment allowances for loans and advances and receivables	(34,685)	(3,902)
	Net losses on disposal of property and equipment	68	7
	Exchange differences	39,455	(16,197)
	Profits tax paid	(16,895)	(13,845)
	Operating profit before changes in operating assets and liabilities	<u>284,048</u>	<u>216,064</u>
	Decrease in operating assets:		
	(Increase)/decrease in placements with banks and financial institutions	(207,511)	25,168
	(Increase)/decrease in derivative financial instruments	(9,192)	1,259
	Decrease in loans and advances and receivables	278,038	554,936
	Decrease/(increase) in held-to-maturity investments	278,537	(72,850)
	Increase in other assets	(46,644)	(21,013)
		<u>293,228</u>	<u>487,500</u>
	(Decrease)/increase in operating liabilities:		
	Decrease in deposits and balances of banks and other financial institutions at amortised cost	(391,418)	(27,668)
	Increase in customer deposits at amortised cost	531,305	338,380
	(Decrease)/increase in certificates of deposit issued at amortised cost	(319,933)	572,892
	(Decrease)/increase in derivative financial instruments	(21,490)	157
	Decrease in other liabilities	(66,992)	(32,817)
		<u>(268,528)</u>	<u>850,944</u>
	Net cash inflow from operating activities	<u>308,748</u>	<u>1,554,508</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		For the six months ended 30 June	
	Notes	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Exchange differences		-	(9)
Purchases of property and equipment	20	(8,001)	(18,285)
Purchases of investment properties	22	-	(48,731)
Dividends received from listed investments		45	39
Dividends received from unlisted investments		700	700
Net cash outflow from investing activities		<u>(7,256)</u>	(66,286)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on shares		<u>(97,815)</u>	(98,808)
Net cash outflow from financing activities		<u>(97,815)</u>	(98,808)
NET INCREASE IN CASH AND CASH EQUIVALENTS		203,677	1,389,414
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		<u>5,328,007</u>	4,226,308
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<u>5,531,684</u>	5,615,722
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand		958,769	1,078,203
Money at call and short notice with an original maturity within three months		3,957,998	3,828,321
Placements with banks and financial institutions with an original maturity within three months		594,928	709,198
Held-to-maturity investments with an original maturity within three months		19,989	-
		<u>5,531,684</u>	5,615,722

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 issued by the Hong Kong Monetary Authority (the “HKMA”) and in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the changes in accounting policies as set out in note 5 below.

The interim financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group’s 2016 Annual Report.

The financial information relating to the year ended 31 December 2016 that is included in the 2017 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 2016 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 Auditor’s 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.

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 2017.

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.

NOTES TO INTERIM FINANCIAL STATEMENTS

3. BASIS OF CONSOLIDATION (Continued)

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.

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 2017		31 December 2016		Principal activities
	Total assets (Unaudited) HK\$	Total equity (Unaudited) HK\$	Total assets (Audited) HK\$	Total equity (Audited) HK\$	
Public Financial Securities Limited	83,509,591	48,000,512	64,874,353	48,000,027	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	4,686,355	4,686,355	4,611,278	4,611,278	Dormant
Public Finance Limited*	6,655,035,806	1,445,638,815	6,454,564,792	1,421,026,386	Deposit-taking and financing
Public Financial Limited	10,101,371	10,101,371	10,101,371	10,101,371	Investment holding
Public Securities Limited	173,510,131	153,241,964	178,378,171	151,306,345	Securities brokerage
Public Securities (Nominees) Limited	1,131,994	1,129,508	1,133,919	1,130,183	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 Banking (Disclosure) Rules.

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 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%. Additional capital requirements, including a new CCyB ratio ranging from 0% to 2.5%, have been implemented since 1 January 2016. The required CCyB ratio for 2017 is 1.25%. The Bank and Public Finance monitor leverage ratio to ensure compliance with regulatory requirements.

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 2017. The Group has adopted the following revised standards for the first time for the current period’s interim financial statements:

- Amendments to HKAS 7 *Disclosure Initiative*
- Amendments to HKAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group is not required to provide additional disclosure in its interim condensed consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ending 31 December 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group applied the amendments retrospectively. However, the application has no effect on the Group’s financial position and performance as the Group has no deductible temporary differences that are in the scope of the amendments.

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:

- Amendments to HKFRS 2 *Classification and Measurement of Share-based Payment Transactions¹*
- Amendments to HKFRS 4 *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts¹*
- HKFRS 9 *Financial Instruments¹*
- HKFRS 15 *Revenue from Contracts with Customers¹*
- Amendments to HKFRS 15 *Clarifications to HKFRS 15 Revenue from Contracts with Customers¹*
- HKFRS 16 *Leases²*
- Annual Improvements 2014-2016 Cycle *Amendments to a number of HKFRSs¹*
- Amendments to HKAS 40 *Transfers of Investment Property¹*
- HK(IFRIC)-Int 22 *Foreign Currency Transactions and Advance Consideration¹*

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

² Effective for annual periods beginning on or after 1 January 2019

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

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO INTERIM FINANCIAL STATEMENTS

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

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 classification and measurement of financial assets will depend on the entity's business model for their management and their contractual cash flow characteristics and result in financial assets being classified and measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss. The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in OCI.

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. At initial recognition, impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months. In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL").

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the probability of default occurring over the remaining life of the financial instrument.

As a result of the final HKFRS 9, the recognition and measurement of impairment is intended to be more forward-looking than under HKAS 39.

Currently, most of the Group's financial assets, including loans and advances, held-to-maturity debt securities and placements with banks and financial institutions are classified and measured at amortised cost, and the Group does not expect the adoption of HKFRS9 to have material impact on the classification and measurement of its financial assets.

The Group expects to adopt HKFRS 9 from 1 January 2018. The Group intends to quantify the potential impact of HKFRS 9 once it is practicable to provide reliable estimates.

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 June 2016, the HKICPA issued amendments to HKFRS 15 to address the implement issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group has assessed the impact of this standard and expects that the standard will not have significant impact, when applied, on the consolidated financial statements of the Group.

NOTES TO INTERIM FINANCIAL STATEMENTS

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments.

Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. As at 30 June 2017, the Group had non-cancellable operating lease commitments of HK\$176,820,000 as set out in note 27(b) to the interim financial statements. The interest expense on the lease liability and the depreciation expense on the right-of-use asset under HKFRS 16 will replace the rental charge under HKAS 17. The operating lease commitments as shown in off-balance sheet item will be replaced by “right-of-use asset” and “lease liability” in the balance sheet of the Group. Other than the above, the Group does not anticipate that the application of this standard will have material impact on the consolidated financial statements of the Group.

The HKICPA issued amendments to HKAS 40 in April 2017 to clarify that, to transfer to or from investment properties, there must be a change in use. A change in use would involve (i) an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and (ii) supporting evidence that a change in use has occurred. The amendments also re-characterised the list of circumstances in HKAS 40.57(a)-(d) as a non-exhaustive list of examples to allow for other circumstances to be accounted for as a transfer, as long as that change is supported by appropriate evidence. The amendments are effective for annual periods beginning on or after 1 January 2018. The Group has assessed the impact of the amendments and expects that the amendments will not have significant impact, when applied, on the consolidated financial statements of the Group.

The HKICPA issued HK(IFRIC)-Int 22 in June 2017 to addresses the exchange rate to be used in transactions that involve advance consideration paid or received in a foreign currency. The interpretation is effective for annual periods beginning on or after 1 January 2018. The Group has assessed the impact of this interpretation and expects that the interpretation will not have significant impact, when applied, on the consolidated financial statements of the Group.

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 2017 and 2016.

	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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Segment revenue								
External:								
Net interest income/(expense)	676,962	663,581	(43)	4	-	-	676,919	663,585
Other operating income:								
Fees and commission income	73,829	72,112	17,267	14,126	-	-	91,096	86,238
Others	9,874	5,747	8	7	4,561	4,453	14,443	10,207
Operating income	760,665	741,440	17,232	14,137	4,561	4,453	782,458	760,030
Profit before tax after impairment allowance	275,971	233,075	5,964	3,444	5,772	3,309	287,707	239,828
Tax							(52,375)	(41,754)
Profit for the period							235,332	198,074
Other segment information								
Depreciation of property and equipment and land held under finance leases	(11,265)	(10,653)	-	-	-	-	(11,265)	(10,653)
Changes in fair value of investment properties	-	-	-	-	2,122	(259)	2,122	(259)
Impairment allowances for loans and advances and receivables	(74,539)	(122,645)	-	-	-	-	(74,539)	(122,645)
Net losses on disposal of property and equipment	(68)	(7)	-	-	-	-	(68)	(7)

NOTES TO INTERIM FINANCIAL STATEMENTS

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table discloses certain asset and liability information regarding operating segments as at 30 June 2017 and 31 December 2016.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016	30 June 2017	31 December 2016	30 June 2017	31 December 2016
	(Unaudited) HK\$'000	(Audited) HK\$'000	(Unaudited) HK\$'000	(Audited) HK\$'000	(Unaudited) HK\$'000	(Audited) HK\$'000	(Unaudited) HK\$'000	(Audited) HK\$'000
Segment assets other than intangible assets and goodwill	40,957,619	40,982,149	293,766	327,618	108,209	106,087	41,359,594	41,415,854
Intangible assets	-	-	718	718	-	-	718	718
Goodwill	242,342	242,342	-	-	-	-	242,342	242,342
Segment assets	41,199,961	41,224,491	294,484	328,336	108,209	106,087	41,602,654	41,658,914
Unallocated assets:								
Interests in a joint venture							1,606	1,606
Deferred tax assets and tax recoverable							27,080	38,302
Total assets							41,631,340	41,698,822
Segment liabilities	35,944,791	36,182,983	90,193	120,472	3,335	3,392	36,038,319	36,306,847
Unallocated liabilities:								
Deferred tax liabilities and tax payable							50,056	25,798
Total liabilities							36,088,375	36,332,645
Other segment information								
Additions to non-current assets – capital expenditure	8,001	88,303	-	-	-	-	8,001	88,303

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 2017 and 2016.

	For the six months ended	
	30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Segment revenue from external customers:		
Hong Kong	719,220	721,551
Mainland China	63,238	38,479
	<u>782,458</u>	<u>760,030</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 2017 and 31 December 2016.

	30 June	31 December
	2017	2016
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Non-current assets:		
Hong Kong	525,539	525,890
Mainland China	17,209	18,068
	<u>542,748</u>	<u>543,958</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% (2016: 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	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income from:		
Loans and advances and receivables	758,244	754,719
Short term placements and placements with banks	56,291	29,675
Held-to-maturity investments	36,803	27,446
	851,338	811,840
Interest expense on:		
Deposits from banks and financial institutions	4,092	8,019
Deposits from customers	170,201	140,189
Bank loans	126	47
	174,419	148,255

Interest income and interest expense for the six months ended 30 June 2017, 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\$851,338,000 and HK\$174,419,000 (2016: HK\$811,840,000 and HK\$148,255,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2017 amounted to HK\$5,774,000 (2016: HK\$2,802,000).

NOTES TO INTERIM FINANCIAL STATEMENTS

8. OTHER OPERATING INCOME

	For the six months ended	
	30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Fees and commission income:		
Retail and commercial banking	74,484	72,818
Wealth management services, stockbroking and securities management	17,267	14,126
	91,751	86,944
Less: Fees and commission expenses	(655)	(706)
Net fees and commission income	91,096	86,238
Gross rental income	4,579	4,481
Less: Direct operating expenses	(18)	(28)
Net rental income	4,561	4,453
Gains less losses arising from dealing in foreign currencies	512	2,481
Net gains on derivative financial instruments	7,937	1,860
	8,449	4,341
Dividend income from listed investments	45	39
Dividend income from unlisted investments	700	700
Net losses on disposal of property and equipment	(68)	(7)
Others	756	681
	105,539	96,445

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 liabilities designated at fair value through profit or loss for the six months ended 30 June 2017 and 2016.

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	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Staff costs:		
Salaries and other staff costs	245,729	228,226
Pension contributions	10,287	10,372
Less: Forfeited contributions	(6)	(10)
Net contribution to retirement benefit schemes	10,281	10,362
	256,010	238,588
Other operating expenses:		
Operating lease rentals on leasehold buildings	32,314	31,587
Depreciation of property and equipment and land held under finance leases	11,265	10,653
Administrative and general expenses	37,383	34,433
Others	85,362	82,037
Operating expenses before changes in fair value of investment properties	422,334	397,298

As at 30 June 2017 and 2016, 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 2017 and 2016 arose in respect of staff who left the schemes during the periods.

NOTES TO INTERIM FINANCIAL STATEMENTS

10. IMPAIRMENT ALLOWANCES

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Net charge for/(write-back of) impairment losses and allowances:		
- loans and advances	76,863	122,684
- trade bills, accrued interest and receivables	(2,324)	(39)
	74,539	122,645
Net charge for/(write-back of) impairment losses and allowances:		
- individually assessed	77,554	123,877
- collectively assessed	(3,015)	(1,232)
	74,539	122,645
Of which:		
- new impairment losses and allowances (including any amount directly written off during the period)	151,577	192,924
- releases and recoveries	(77,038)	(70,279)
Net charge to the consolidated income statement	74,539	122,645

There were no impairment allowances for financial assets other than loans and advances and receivables for the six months ended 30 June 2017 and 2016.

NOTES TO INTERIM FINANCIAL STATEMENTS

11. TAX

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Current tax charge :		
Hong Kong	36,229	33,820
Overseas	9,178	5,010
Under-provision in prior periods	426	-
Deferred tax charge, net	6,542	2,924
	52,375	41,754

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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 2017 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	236,861		50,846		287,707	
Tax at the applicable tax rate	39,082	16.5	12,711	25.0	51,793	18.0
Estimated tax effect of net expenses that are not deductible	158	0.1	10	-	168	0.1
Estimated tax losses from previous periods utilised	(12)	-	-	-	(12)	-
Adjustments in respect of current tax of previous periods	-	-	426	0.9	426	0.1
Tax charge at the Group's effective rate	39,228	16.6	13,147	25.9	52,375	18.2

NOTES TO INTERIM FINANCIAL STATEMENTS

11. TAX (Continued)

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

12. DIVIDENDS

(a) Dividends attributable to the interim period

	For the six months ended 30 June			
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$ per ordinary share	HK\$ per ordinary share	HK\$'000	HK\$'000
Interim dividend	<u>7.803</u>	6.639	<u>115,609</u>	98,363

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			
	2017 (Unaudited) HK\$ per ordinary share	2016 (Unaudited) HK\$ per ordinary share	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Final dividend in respect of the previous year	6.602	6.669	97,815	98,808

13. CASH AND SHORT TERM PLACEMENTS

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Cash on hand	148,569	168,220
Placements with banks and financial institutions	810,200	1,209,585
Money at call and short notice	4,050,062	2,878,024
	5,008,831	4,255,829

Over 90% (2016: 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 Moody's, an external credit agency.

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 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Placements with banks and financial institutions	1,861,022	2,222,825

Over 90% (2016: 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 Moody's, an external credit agency.

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

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Loans and advances to customers	28,530,559	28,800,181
Trade bills	53,718	53,012
Loans and advances, and trade bills	28,584,277	28,853,193
Accrued interest	70,850	79,343
Other receivables	588	1,217
Gross loans and advances and receivables	28,655,127	28,932,536
Less: Impairment allowances for loans and advances and receivables		
- individually assessed	(82,101)	(113,607)
- collectively assessed	(9,315)	(12,310)
	(91,416)	(125,917)
Loans and advances and receivables	28,564,299	28,807,836

Over 90% (2016: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (2016: 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:

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Neither past due nor impaired loans and advances and receivables	28,083,363	28,165,049
Past due but not impaired loans and advances and receivables	397,551	538,088
Individually impaired loans and advances	172,370	226,271
Individually impaired receivables	2,431	4,345
Gross loans and advances and receivables	28,655,715	28,933,753

About 65% (2016: about 67%) 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 2017 (Unaudited)		31 December 2016 (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	60,946	0.21	82,566	0.29
One year or less but over six months	19,156	0.07	38,384	0.13
Over one year	14,005	0.05	8,903	0.03
Loans and advances overdue for more than three months	94,107	0.33	129,853	0.45
Rescheduled loans and advances overdue for three months or less	44,970	0.16	56,432	0.20
Impaired loans and advances overdue for three months or less	33,293	0.11	39,986	0.14
Total overdue and impaired loans and advances	172,370	0.60	226,271	0.79

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

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	135	287
One year or less but over six months	701	1,605
Over one year	1,332	1,960
Trade bills, accrued interest and other receivables overdue for more than three months	2,168	3,852
Impaired trade bills, accrued interest and other receivables overdue for three months or less	263	493
Total overdue and impaired trade bills, accrued interest and other receivables	2,431	4,345

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 impairment allowances

	30 June 2017 (Unaudited)			31 December 2016 (Audited)		
	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	77,864	18,411	96,275	109,118	24,587	133,705
Individual impairment allowances	44,196	9,500	53,696	53,764	22,429	76,193
Collective impairment allowances	1	2	3	-	-	-
Current market value and fair value of collateral			78,166			96,114
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	146,393	28,408	174,801	206,029	24,587	230,616
Individual impairment allowances	72,601	9,500	82,101	91,178	22,429	113,607
Collective impairment allowances	4	2	6	-	-	-
Current market value and fair value of collateral			157,691			164,908

Over 90% (2016: 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:

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	78,166	96,114
Covered portion of overdue loans and advances	35,727	51,124
Uncovered portion of overdue loans and advances	58,380	78,729

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

As at 30 June 2017, the total value of repossessed assets of the Group amounted to HK\$20,000,000 (31 December 2016: HK\$7,210,000).

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 2017 (Unaudited)		31 December 2016 (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	396,001	1.39	521,497	1.81
Trade bills, accrued interest and other receivables overdue for three months or less	1,550		16,591	

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 2017 (Unaudited) Collective impairment allowances HK\$'000	Total HK\$'000
As at 1 January 2017	113,607	12,310	125,917
Amounts written off	(177,645)	-	(177,645)
Impairment losses and allowances charged to the consolidated income statement	151,462	115	151,577
Impairment losses and allowances released to the consolidated income statement	(73,908)	(3,130)	(77,038)
Net charge/(release) of impairment losses and allowances	77,554	(3,015)	74,539
Loans and advances and receivables recovered	68,421	-	68,421
Exchange difference	164	20	184
As at 30 June 2017	82,101	9,315	91,416
Deducted from:			
Loans and advances	82,033	9,209	91,242
Trade bills, accrued interest and other receivables	68	106	174
	82,101	9,315	91,416

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 2016		
	(Audited)		
	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000	Total HK\$'000
As at 1 January 2016	101,543	15,725	117,268
Amounts written off	(377,182)	-	(377,182)
Impairment losses and allowances charged to the consolidated income statement	400,941	136	401,077
Impairment losses and allowances released to the consolidated income statement	(149,153)	(3,506)	(152,659)
Net charge/(release) of impairment losses and allowances	251,788	(3,370)	248,418
Loans and advances and receivables recovered	138,122	-	138,122
Exchange difference	(664)	(45)	(709)
As at 31 December 2016	113,607	12,310	125,917
Deducted from:			
Loans and advances	111,492	12,025	123,517
Trade bills, accrued interest and other receivables	2,115	285	2,400
	113,607	12,310	125,917

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 2017 (Unaudited)		31 December 2016 (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	359,202	266,378	363,858	270,485
In the second to fifth years, inclusive	1,058,851	753,356	1,063,750	758,967
Over five years	3,778,955	3,144,952	3,717,836	3,088,024
	5,197,008	4,164,686	5,145,444	4,117,476
Less: Unearned finance income	(1,032,322)		(1,027,968)	
Present value of minimum lease payments receivable	4,164,686		4,117,476	

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

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Unlisted equity investments in corporate entity, at fair value:		
At the beginning and the end of the period/year	6,804	6,804

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

17. HELD-TO-MATURITY INVESTMENTS

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Certificates of deposit held	2,384,604	2,530,788
Treasury bills and government bonds (including Exchange Fund Bills)	1,630,046	1,682,974
Other debt securities	1,420,663	1,480,099
	5,435,313	5,693,861
Listed or unlisted:		
- Listed in Hong Kong	1,715,013	1,617,360
- Listed outside Hong Kong	29,991	81,784
- Unlisted	3,690,309	3,994,717
	5,435,313	5,693,861
Analysed by types of issuers:		
- Central governments	1,630,046	1,682,974
- Banks and other financial institutions	3,805,267	4,010,887
	5,435,313	5,693,861

There were no impairment allowances made against held-to-maturity investments as at 30 June 2017 and 31 December 2016. There were no movements in impairment allowances for the period ended 30 June 2017 and for the year ended 31 December 2016.

There were neither impaired nor overdue held-to-maturity investments as at 30 June 2017 and 31 December 2016.

All exposures attributed to the held-to-maturity investments were rated with a grading of A3 or above based on the credit rating of Moody's, an external credit agency, as at 30 June 2017 and 31 December 2016.

NOTES TO INTERIM FINANCIAL STATEMENTS

18. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Interest receivables from financial institutions	33,494	22,434
Other debtors, deposits and prepayments	132,057	102,923
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	10,088	3,638
	175,639	128,995

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

Other liabilities

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Interest payable	82,014	73,282
Creditors, accruals and other payables	230,665	304,563
Net amount of accounts payable to HKSCC	22,501	24,327
	335,180	402,172

NOTES TO INTERIM FINANCIAL STATEMENTS

19. INTANGIBLE ASSETS

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Cost:		
At the beginning and the end of the period/year	<u>1,923</u>	1,923
Accumulated impairment:		
At the beginning and the end of the period/year	<u>1,205</u>	1,205
Net carrying amount:		
At the beginning and 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 (2016: five units) of Stock Exchange Trading Right and one unit (2016: 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:			
As at 1 January 2017	18,443	259,551	277,994
Additions	-	8,001	8,001
Disposals/write-off	-	(8,965)	(8,965)
As at 30 June 2017	18,443	258,587	277,030
Accumulated depreciation:			
As at 1 January 2017	6,874	182,379	189,253
Provided during the period	201	9,242	9,443
Disposals/write-off	-	(8,897)	(8,897)
As at 30 June 2017	7,075	182,724	189,799
Net carrying amount:			
As at 30 June 2017	11,368	75,863	87,231

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:			
As at 1 January 2016	17,745	223,663	241,408
Transfer from investment properties	698	-	698
Additions	-	39,572	39,572
Disposals/write-off	-	(3,684)	(3,684)
As at 31 December 2016	18,443	259,551	277,994
Accumulated depreciation:			
As at 1 January 2016	6,475	167,587	174,062
Provided during the year	408	18,421	18,829
Disposals/write-off	-	(3,629)	(3,629)
Exchange difference	(9)	-	(9)
As at 31 December 2016	6,874	182,379	189,253
Net carrying amount:			
As at 31 December 2016	11,569	77,172	88,741

There were no impairment allowances made against the above items of property and equipment as at 30 June 2017 and 31 December 2016. There were no movements in impairment allowances for the period ended 30 June 2017 and for the year ended 31 December 2016.

NOTES TO INTERIM FINANCIAL STATEMENTS

21. LAND HELD UNDER FINANCE LEASES

	HK\$'000
Cost:	
As at 1 January 2016	143,621
Transfer from investment properties	<u>6,845</u>
As at 31 December 2016, 1 January 2017 (Audited) and 30 June 2017 (Unaudited)	<u>150,466</u>
Accumulated depreciation and impairment:	
As at 1 January 2016	42,443
Depreciation provided during the year	<u>3,559</u>
As at 31 December 2016 and 1 January 2017 (Audited)	<u>46,002</u>
Depreciation provided during the period	<u>1,822</u>
As at 30 June 2017 (Unaudited)	<u>47,824</u>
Net carrying amount:	
As at 30 June 2017 (Unaudited)	<u>102,642</u>
As at 31 December 2016 (Audited)	<u>104,464</u>

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

NOTES TO INTERIM FINANCIAL STATEMENTS

22. INVESTMENT PROPERTIES

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Carrying amount at the beginning of the period/year	106,087	63,137
Additions	-	48,731
Transfer to property and equipment	-	(698)
Transfer to land held under finance leases	-	(6,845)
Changes in fair value recognised in consolidated income statement	2,122	1,762
Carrying amount at the end of the period/year	108,209	106,087

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 transfer of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (31 December 2016: Nil). The Group has assessed that the highest and best use of its properties did not differ from their existing use.

As at 30 June 2017, 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 2017 (Unaudited)		31 December 2016 (Audited)	
	Range HK\$	Weighted average HK\$	Range HK\$	Weighted average HK\$
Price per square metre	75,000 to 492,000	359,000	74,000 to 482,000	352,000

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 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Demand deposits and current accounts	3,460,956	3,586,745
Savings deposits	6,215,431	5,507,254
Time, call and notice deposits	24,734,266	24,785,349
	34,410,653	33,879,348

24. SHARE CAPITAL

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Issued and fully paid: 14,816,000 (2016: 14,816,000) ordinary shares	2,854,045	2,854,045

NOTES TO INTERIM FINANCIAL STATEMENTS

25. RESERVES

	Group reconstruction reserve HK\$'000	Capital reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
As at 1 January 2016	3,065	17,660	455,442	1,846,276	42,182	2,364,625
Profit for the year	-	-	-	396,860	-	396,860
Other comprehensive income	-	-	-	-	(52,182)	(52,182)
Transfer to retained profits	-	-	(16,704)	16,704	-	-
Dividends paid in respect of previous year	-	-	-	(98,808)	-	(98,808)
Dividends paid in respect of current year	-	-	-	(98,363)	-	(98,363)
As at 31 December 2016 and 1 January 2017 (Audited)	3,065	17,660	438,738	2,062,669	(10,000)	2,512,132
Profit for the period	-	-	-	235,332	-	235,332
Other comprehensive income	-	-	-	-	39,271	39,271
Transfer to retained profits	-	-	(10,838)	10,838	-	-
Dividends paid in respect of previous year	-	-	-	(97,815)	-	(97,815)
As at 30 June 2017 (Unaudited)	3,065	17,660	427,900	2,211,024	29,271	2,688,920

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 guidelines.

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 2017 (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	27,870	27,870	22,485	-	-
Transaction-related contingencies	14,406	7,203	2,112	-	-
Trade-related contingencies	62,894	12,579	11,928	-	-
Forward forward deposits placed	5,754	5,754	1,151	-	-
Forward asset purchases	-	-	-	-	-
	110,924	53,406	37,676	-	-
Derivatives held for trading :					
Foreign exchange rate contracts	1,680,117	26,412	5,283	9,604	1,667
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	10,000	5,000	5,000	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,424,858	-	-	-	-
	5,225,899	84,818	47,959	9,604	1,667
				30 June 2017 (Unaudited) Contractual Amount HK\$'000	
Capital commitments contracted for, but not provided in the consolidated statement of financial position				11,866	

NOTES TO INTERIM FINANCIAL STATEMENTS

26. OFF-BALANCE SHEET EXPOSURE (Continued)

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

	31 December 2016 (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	723,281	723,281	197,661	-	-
Transaction-related contingencies	15,235	7,618	2,569	-	-
Trade-related contingencies	101,475	20,294	5,687	-	-
Forward forward deposits placed	-	-	-	-	-
Forward asset purchases	-	-	-	-	-
	839,991	751,193	205,917	-	-
Derivatives held for trading :					
Foreign exchange rate contracts	1,214,516	12,557	2,529	412	23,157
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	-	-	-	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,789,134	-	-	-	-
	5,843,641	763,750	208,446	412	23,157
				31 December 2016 (Audited) Contractual Amount HK\$'000	
Capital commitments contracted for, but not provided in the consolidated statement of financial position					11,643

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.

As at 30 June 2017 and 31 December 2016, 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.

As at 30 June 2017 and 31 December 2016, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Within one year	2,246	2,791
In the second to fifth years, inclusive	337	949
	2,583	3,740

(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.

As at 30 June 2017 and 31 December 2016, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Within one year	92,934	66,905
In the second to fifth years, inclusive	83,128	45,468
Over five years	758	872
	176,820	113,245

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 2017 (Unaudited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets:				
Derivative financial instruments	-	9,604	-	9,604
Available-for-sale financial assets	-	-	6,804	6,804
	-	9,604	6,804	16,408
Financial liabilities:				
Derivative financial instruments	-	1,667	-	1,667

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 2016 (Audited)			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets:				
Derivative financial instruments	-	412	-	412
Available-for-sale financial assets	-	-	6,804	6,804
	-	412	6,804	7,216
Financial liabilities:				
Derivative financial instruments	-	23,157	-	23,157

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. As at 30 June 2017 and as at 31 December 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 2017 and the year ended 31 December 2016, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the period ended 30 June 2017 and the year ended 31 December 2016, 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 2017 and the year ended 31 December 2016.

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 2017 (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
Financial assets:								
Cash and short term placements	958,769	4,050,062	-	-	-	-	-	5,008,831
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	1,226,717	634,305	-	-	-	1,861,022
Loans and advances and receivables (gross)	871,227	1,810,154	2,021,276	2,805,068	6,134,344	14,838,845	174,801	28,655,715
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	99,918	501,447	3,112,663	1,721,285	-	-	5,435,313
Other assets	229	64,591	13,651	26,201	-	-	70,967	175,639
Foreign exchange contracts (gross)	-	1,545,159	134,958	-	-	-	-	1,680,117
Total financial assets	1,830,225	7,569,884	3,898,049	6,578,237	7,855,629	14,838,845	252,572	42,823,441
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	48,639	379,335	50,000	60,000	-	-	-	537,974
Customer deposits at amortised cost	9,703,908	7,101,945	10,423,347	5,894,975	1,286,478	-	-	34,410,653
Certificates of deposit issued at amortised cost	-	-	-	752,845	-	-	-	752,845
Other liabilities	1,263	91,194	21,375	20,534	21,813	-	179,001	335,180
Foreign exchange contracts (gross)	-	1,538,216	133,964	-	-	-	-	1,672,180
Total financial liabilities	9,753,810	9,110,690	10,628,686	6,728,354	1,308,291	-	179,001	37,708,832
Net liquidity gap	(7,923,585)	(1,540,806)	(6,730,637)	(150,117)	6,547,338	14,838,845	73,571	5,114,609
	31 December 2016 (Audited)							
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	Total HK\$'000
Financial assets:								
Cash and short term placements	1,377,805	2,878,024	-	-	-	-	-	4,255,829
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	1,750,984	471,841	-	-	-	2,222,825
Loans and advances and receivables (gross)	691,761	2,018,871	1,419,931	2,840,117	6,286,764	15,445,693	230,616	28,933,753
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	155,009	1,244,144	3,094,868	1,199,840	-	-	5,693,861
Other assets	293	31,631	15,413	31,197	-	-	50,461	128,995
Foreign exchange contracts (gross)	-	824,229	208,616	181,671	-	-	-	1,214,516
Total financial assets	2,069,859	5,907,764	4,639,088	6,619,694	7,486,604	15,445,693	287,881	42,456,583
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	58,788	597,212	151,152	122,240	-	-	-	929,392
Customer deposits at amortised cost	9,115,498	6,713,868	11,244,633	6,170,097	635,252	-	-	33,879,348
Certificates of deposit issued at amortised cost	-	529,990	542,788	-	-	-	-	1,072,778
Other liabilities	361	56,506	19,709	27,109	10,788	-	287,699	402,172
Foreign exchange contracts (gross)	-	841,281	212,083	183,897	-	-	-	1,237,261
Total financial liabilities	9,174,647	8,738,857	12,170,365	6,503,343	646,040	-	287,699	37,520,951
Net liquidity gap	(7,104,788)	(2,831,093)	(7,531,277)	116,351	6,840,564	15,445,693	182	4,935,632

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 of the Bank and Public Finance and reviewed regularly by their 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 of the Bank.

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

As at 30 June 2017, 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 2016: HK\$12 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
As at 30 June 2017 (unaudited)						
USD	4,777	3,958	426	1,245	-	-
RMB	1,954	1,927	-	1	26	1,151
AUD	812	966	165	14	(3)	-
Others	767	963	608	411	1	-
	8,310	7,814	1,199	1,671	24	1,151

	Spot assets HK\$'million	Spot liabilities HK\$'million	Forward purchases HK\$'million	Forward sales HK\$'million	Net long/(short) position HK\$'million	Structural assets HK\$'million
As at 31 December 2016 (audited)						
USD	5,437	4,420	109	1,123	3	-
RMB	2,120	2,087	2	1	34	1,112
Others	885	1,845	959	2	(3)	-
	8,442	8,352	1,070	1,126	34	1,112

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, credit reviews, 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 Departments of the Bank and Public Finance to evaluate the effectiveness of credit reviews, approval and monitoring processes and to ensure that the established credit policies and procedures are complied with.

Compliance Departments of the Bank and Public Finance conduct 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 and management 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 meeting discussions and management reports. Impaired financial assets include those subject to personal bankruptcy petitions, corporate winding-up and rescheduled arrangements.

RMCs of the Bank and Public Finance are responsible for establishing the framework for identifying, measuring, monitoring and controlling the credit risk of existing and new products. The Committees also review credit risk management policies and credit risk tolerance limits. The RMC of the Bank is assisted by CRMC for discharging its responsibilities on credit risk management issues.

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 ratio, loans to deposits ratio, 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 management 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 management 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 the 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 stress scenarios; concentration related limits of deposits and other funding sources, and maturity profile of major assets and liabilities (including on-balance sheet 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 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 stress scenarios such as institution-specific stress scenario, general market stress 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 stress 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 general market stress scenario, some undrawn banking facilities are not to be honoured upon drawdown as some bank counterparties will not have sufficient liquidity to honour 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	
	2017 (Unaudited)	2016 (Unaudited)
Consolidated average liquidity maintenance ratio	<u>47.0%</u>	46.7%

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.

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Consolidated CET1 Capital Ratio	17.9%	16.6%
Consolidated Tier 1 Capital Ratio	17.9%	16.6%
Consolidated Total Capital Ratio	19.0%	17.7%

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:

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
CET1 capital instruments	2,854,045	2,854,045
Retained earnings	2,099,863	1,953,733
Disclosed reserves	460,830	432,398
CET1 capital before deduction	5,414,738	5,240,176
Deduct:		
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	(28,787)	(26,665)
Regulatory reserve for general banking risk	(427,899)	(438,738)
Goodwill	(242,342)	(242,342)
Deferred tax assets in excess of deferred tax liabilities	(8,668)	(15,210)
CET1 capital after deduction	4,707,042	4,517,221
Additional Tier 1 capital	-	-
Tier 1 capital after deductions	4,707,042	4,517,221
Reserve attributable to fair value gains	12,954	11,999
Regulatory reserve for general banking risk	272,561	284,915
Collective provisions	12,954	12,310
	285,515	297,225
Tier 2 capital	298,469	309,224
Capital base	5,005,511	4,826,445

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 2017 is 1.25%. 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 capital conservation buffer.

The Group has reserved a capital buffer for the implementation of CCyB ratio, inclusive of CCyB ratio of 1.25%, to the private sector credit exposures in Hong Kong that has been applied since 1 January 2017.

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

Jurisdiction (J)	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK\$'000	CCyB ratio %	CCyB amount HK\$'000
As at 30 June 2017 (Unaudited)				
1. Hong Kong	1.250	17,084,319		
2. Mainland China	0.000	1,783,473		
Total		18,867,792	1.132	213,554

Jurisdiction	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK\$'000	CCyB ratio %	CCyB amount HK\$'000
As at 31 December 2016 (Audited)				
1. Hong Kong	0.625	18,188,716		
2. Mainland China	0.000	1,882,585		
Total		20,071,301	0.566	113,679

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.

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Consolidated Tier 1 Capital	4,707,042	4,517,221
Consolidated Exposure Measure for Leverage Ratio	41,440,349	42,213,511
Consolidated Leverage Ratio	11.4%	10.7%

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 at www.publicbank.com.hk on or before 30 September 2017.

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 Banking (Disclosure) Rules, 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 at www.publicbank.com.hk on or before 30 September 2017.

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:

		30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
	Note		
CET1 capital instruments issued by the Bank			
Ordinary shares:			
14,816,000 issued and fully paid ordinary shares	24	2,854,045	2,854,045

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Pillar 3 disclosures

Further disclosures with respect to capital adequacy and risk management were shown in the Pillar 3 disclosures templates as required by the Banking (Disclosure) Rules. The Group will publish the Pillar 3 disclosures for the 2nd quarter ended 30 June 2017 under “Regulatory Disclosures” section on the Bank’s website at www.publicbank.com.hk on or before 30 September 2017.

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 2017								
	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	467,025	73	108	-	-	453,705	97.1	108	108
Building and construction, property development and investment									
Property development	239,663	35	87	100	-	239,000	99.7	343	343
Property investment	5,555,787	820	61	6	399	5,555,787	100.0	3,464	3,464
Civil engineering works	149,085	33	-	1	-	55,542	37.3	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	30,239	4	-	1	-	30,177	99.8	-	-
Information technology	5,612	1	-	-	-	5,612	100.0	-	-
Wholesale and retail trade	249,050	68	49	11	56	218,323	87.7	6,327	49
Transport and transport equipment	4,129,054	566	741	331	113	4,112,741	99.6	741	155
Hotels, boarding houses and catering	166,384	24	-	-	-	160,449	96.4	-	-
Financial concerns	1,308,880	191	-	75	-	1,303,540	99.6	-	-
Stockbrokers									
Margin lending	395,762	58	-	3	-	315,856	79.8	-	-
Others	3,381	-	-	-	-	3,381	100.0	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	54,837	8	-	2	-	47,319	86.3	-	-
Others	82,932	12	-	-	-	81,133	97.8	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	58,497	9	-	-	-	58,497	100.0	-	-
Loans for the purchase of other residential properties	8,279,869	1,167	-	1	-	8,279,869	100.0	30,342	15,003
Loans for credit card advances	10,268	1	35	88	85	-	-	74	25
Loans for other business purposes	21,051	3	-	-	-	21,051	100.0	-	-
Loans for other private purposes	4,015,170	5,639	70,941	150,644	164,960	237,543	5.9	103,449	57,334
Trade finance	881,200	128	-	-	-	858,859	97.5	-	-
Other loans and advances	119,062	17	-	4	-	117,280	98.5	-	-
Sub-total	26,222,808	8,857	72,022	151,267	165,613	22,155,664	84.5	144,848	76,481
Loans and advances for use outside Hong Kong	2,307,751	352	10,011	277	10,060	2,209,341	95.7	27,522	17,626
Total loans and advances (excluding trade bills and other receivables)	28,530,559	9,209	82,033	151,544	175,673	24,365,005	85.4	172,370	94,107

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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

	31 December 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	573,938	100	127	760	760	560,824	97.7	1,298	127	
Building and construction, property development and investment										
Property development	153,517	23	-	1	-	152,698	99.5	-	-	
Property investment	5,847,863	860	594	401	-	5,847,267	100.0	17,382	7,655	
Civil engineering works	136,135	37	-	-	133	46,389	34.1	-	-	
Electricity and gas	-	-	-	-	-	-	-	-	-	
Recreational activities	23,004	3	-	-	-	22,894	99.5	-	-	
Information technology	3,757	1	-	-	-	3,757	100.0	-	-	
Wholesale and retail trade	241,175	88	97	161	623	212,986	88.3	9,717	9,717	
Transport and transport equipment	4,084,932	567	1,166	1,192	2,489	4,065,880	99.5	1,166	395	
Hotels, boarding houses and catering	160,760	24	-	-	-	152,832	95.1	-	-	
Financial concerns	790,989	116	-	39	-	750,989	94.9	-	-	
Stockbrokers										
Margin lending	378,922	55	-	-	-	289,018	76.3	-	-	
Others	61	-	-	-	-	-	-	-	-	
Non-stockbroking companies and individuals for the purchase of shares										
Margin lending	41,713	6	-	-	-	33,730	80.9	-	-	
Others	82,014	12	-	-	-	80,215	97.8	-	-	
Professional and private individuals										
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	65,124	10	-	-	-	65,124	100.0	-	-	
Loans for the purchase of other residential properties	8,713,755	1,235	2,407	2,411	-	8,711,348	100.0	48,816	22,264	
Loans for credit card advances	12,051	2	35	104	90	-	-	143	49	
Loans for other business purposes	24,184	4	-	-	-	24,184	100.0	-	-	
Loans for other private purposes	3,915,156	7,571	85,499	381,105	370,554	207,231	5.3	125,057	66,955	
Trade finance	1,091,662	160	-	-	-	1,048,861	96.1	-	-	
Other loans and advances	85,812	13	-	-	-	84,118	98.0	-	-	
Sub-total	26,426,524	10,887	89,925	386,174	374,649	22,360,345	84.6	203,579	107,162	
Loans and advances for use outside Hong Kong	2,373,657	1,138	21,567	14,752	2,505	2,261,269	95.3	22,692	22,691	
Total loans and advances (excluding trade bills and other receivables)	28,800,181	12,025	111,492	400,926	377,154	24,621,614	85.5	226,271	129,853	

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 international claims on individual countries or areas taking into account the recognised risk transfer, amounting to 10% or more of the aggregate international claims.

	Banks HK\$'million	Official sector HK\$'million	Non-bank financial institutions HK\$'million	Non- financial private sector HK\$'million	Total HK\$'million
As at 30 June 2017					
1. Developed countries*	2,472	8	-	308	2,788
2. Offshore centres, of which	1,141	3	128	3,441	4,713
- Hong Kong	499	3	128	2,758	3,388
3. Developing Asia-Pacific, of which	4,379	22	30	723	5,154
- China	2,396	22	30	666	3,114
	Banks HK\$'million	Official sector HK\$'million	Non-bank financial institutions HK\$'million	Non- financial private sector HK\$'million	Total HK\$'million
As at 31 December 2016					
1. Developed countries*	3,084	8	-	429	3,521
2. Offshore centres, of which	191	3	34	3,009	3,237
- Hong Kong	140	3	34	2,731	2,908
3. Developing Asia-Pacific, of which	3,453	108	19	1,422	5,002
- China	1,520	108	19	1,367	3,014

* 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
As at 30 June 2017			
Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	281	-	281
People's Republic of China ("PRC") nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	587	1,235	1,822
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	4	-	4
Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	1,384	-	1,384
Total	2,256	1,235	3,491
Total assets after provision	37,323		
On-balance sheet exposures as percentage of total assets	6.04%		
	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total HK\$'million
As at 31 December 2016			
Central government, central government-owned entities and their subsidiaries and JVs	321	-	321
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	723	662	1,385
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	2	-	2
Total	1,046	662	1,708
Total assets after provision	37,575		
On-balance sheet exposures as percentage of total assets	2.78%		

Note:

The analysis of non-bank Mainland China exposures is disclosed with reference to the Banking (Disclosure) Rules and Completion Instruction for the HKMA Return of Mainland Activities.

BUSINESS PERFORMANCE

For the six months ended 30 June 2017, the Group recorded a profit after tax of HK\$235.3 million, representing an increase of HK\$37.2 million or 18.8% as compared to the profit after tax of HK\$198.1 million for the corresponding period in 2016. The increase in earnings of the Group was attributed to the increase in net interest income and a decline in impairment allowance for loans and advances for the period under review.

During the period under review, the Group's total interest income increased by HK\$39.5 million or 4.9% to HK\$851.3 million, and total interest expense increased by HK\$26.2 million or 17.6% to HK\$174.4 million arising from the increase in funding cost of customer deposits in the period under review. Consequently, net interest income increased by HK\$13.3 million or 2.0% to HK\$676.9 million.

Other operating income of the Group increased by HK\$9.1 million or 9.4% to HK\$105.5 million, mainly due to higher income from the Group's stockbroking activities.

The Group's operating expenses increased by HK\$25.0 million or 6.3% to HK\$422.3 million mainly due to increase of staff related costs.

Impairment allowances for loans and advances and receivables decreased by HK\$48.1 million or 39.2% to HK\$74.5 million due to a decline in the level of impaired loans. Impaired loans to total loans ratio improved by 0.19% to 0.60% as at 30 June 2017 from 0.79% as at 31 December 2016.

The Group's total loans and advances (including trade bills) decreased by HK\$268.9 million or 0.9% to HK\$28.58 billion as at 30 June 2017 from HK\$28.85 billion as at 31 December 2016. The Group's deposits from customers grew by HK\$531.3 million or 1.6% to HK\$34.41 billion as at 30 June 2017 from HK\$33.88 billion as at 31 December 2016. Total assets of the Group stood at HK\$41.63 billion as at 30 June 2017.

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

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

20 July 2017