大眾金融控股有限公司
PUBLIC FINANCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 626

Excellence
is Our Commitment

Annual Report 2012

Public Financial Holdings Limited
Annual Report 2012

Contents

Corporate Information

Board of Directors

Non-executive Chairman

Tan Sri Dato' Sri Dr. Teh Hong Piow (Chairman),
also Founder and Chairman of
Public Bank Berhad

Executive Directors

Tan Yoke Kong
Lee Huat Oon

Non-executive Directors

Tan Sri Dato' Sri Tay Ah Lek
Dato' Chang Kat Kiam
Chong Yam Kiang

Independent Non-executive Directors

Tan Sri Datuk Seri Utama Thong Yaw Hong
(Co-Chairman)
Lee Chin Guan
Quah Poh Keat

Joint Secretaries

Tan Yoke Kong
Chan Sau Kuen

Registered Office

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

2/F, Public Bank Centre
120 Des Voeux Road Central
Central, Hong Kong
Telephone : (852) 2541 9222
Facsimile : (852) 2815 9232
Website : www.publicfinancial.com.hk

Share Listing

Main Board of The Stock Exchange
of Hong Kong Limited
Stock Code : 626

Principal Registrar

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

Hong Kong Branch Registrar

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong
Telephone : (852) 2980 1333
Facsimile : (852) 2810 8185

Auditors

Ernst & Young
Certified Public Accountants

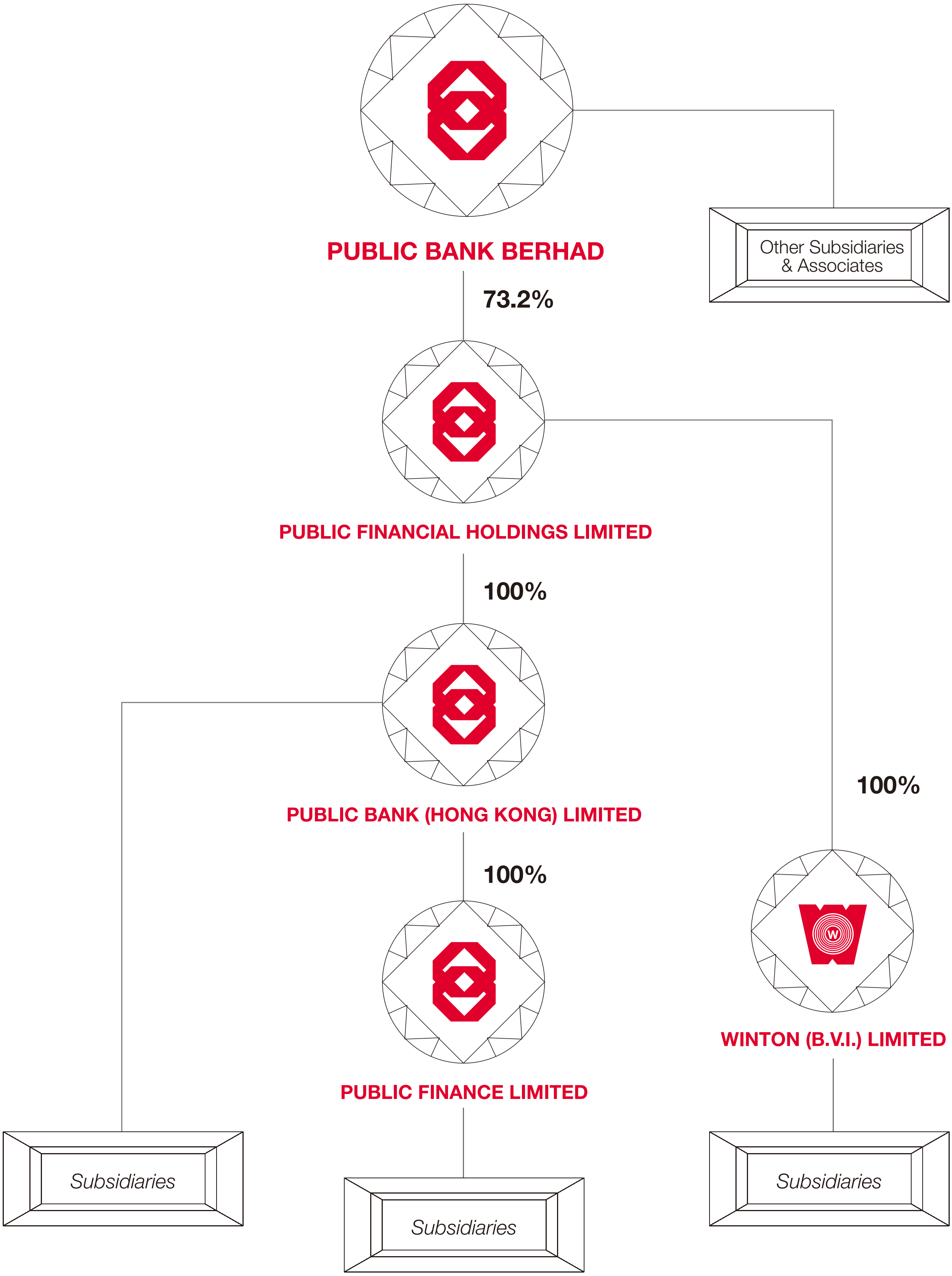
Legal Advisers

Charles Yeung Clement Lam Liu & Yip
Deacons
Siao, Wen and Leung
Woo Kwan Lee & Lo

Principal Bankers

Bangkok Bank Public Company Limited
Bank of East Asia, Limited
CIMB Bank Berhad
Malayan Banking Berhad
Mizuho Corporate Bank, Ltd
Oversea-Chinese Banking Corporation Limited
Public Bank Berhad
Public Bank (L) Ltd
The Standard Bank of South Africa Limited
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

Group Structure



Public Bank (Hong Kong) Limited Branch Network

Head Office and Branches

Head Office
2/F, Public Bank Centre, 120 Des Voeux Road Central
Tel : 2541 9222 Telex : 73085 CBHK HKHH
P.O. Box : G.P.O. Box 824 Fax : 2541 0009
Website : www.publicbank.com.hk

Hong Kong Island

1 **Main Branch**
G/F, Public Bank Centre
120 Des Voeux Road Central
Tel: 2541 9222 Fax: 2545 2866
Manager: So Wai Ming, Aubrey

2 **Western Branch**
Shop 2-3, G/F, Kam Kwan Building
163-173 Des Voeux Road West
Tel: 2858 2220 Fax: 2858 2638
Manager: Pang Ching Fan, Fanny

3 **Wanchai Commercial Centre**
Unit A, 9/F, China Overseas Building
139 Hennessy Road
Tel: 2891 4171 Fax: 2834 1012
Manager: Lee Yuk Tong, Tony

4 **North Point Branch**
Shop 2, G/F, Two Chinachem Exchange Square
338 King's Road
Tel: 2568 5141 Fax: 2567 0655
Manager: Ng Ngan Sum, Helen

5 **Shek Tong Tsui Branch**
Shop B1, G/F, Hong Kong Plaza
369-375 Des Voeux Road West
Tel: 2546 2055 Fax: 2559 7962
Manager: Ting Lai May, May

6 **Causeway Bay Branch**
G/F and M/F, 447 Hennessy Road
Tel: 2572 2363 Fax: 2572 3033
Manager: Leung Siu Ying, Fanny

7 **Central Branch**
Unit A, G/F, Wing On House
71 Des Voeux Road Central
Tel: 2147 2140 Fax: 2147 2244

8 **Aberdeen Branch**
Shop C, G/F, Kong Kai Building
184 Aberdeen Main Road
Tel: 2871 0928 Fax: 2871 0383
Manager: Wong Chun Hoi, Wilson

9 **Shau Kei Wan Branch**
Shop 2, G/F, Hong Tai Building
326-332 Shaukeiwan Road
Tel: 2884 3993 Fax: 2885 9283
Manager: Ngan Pui Shan, Sandy

10 **Quarry Bay Branch**
Shop 8, G/F, Oceanic Mansion
1010-1026 King's Road
Tel: 2856 3880 Fax: 2856 0833
Manager: Chui King Yan, Connie

Kowloon

11 **Yaumatei Branch**
Shop 6, G/F, Wing Kiu Building
530-538 Nathan Road
Tel: 2381 1678 Fax: 2395 6398
Manager: Wong Mun Yu, Moon

12 **Kowloon City Branch**
G/F, 15 Nga Tsin Wai Road
Tel: 2382 0147 Fax: 2718 4281
Manager: Yan Yi Kam, Patrick

13 **Hung Hom Branch**
G/F, Hunghom Commercial Centre
37 Ma Tau Wai Road
Tel: 2363 9213 Fax: 2363 3195
Manager: Lee Wai Kwan, Luceta

14 **Kwun Tong Branch**
Unit 2310, Tower 1, Millennium City 1
388 Kwun Tong Road
Tel: 2389 9119 Fax: 2389 9969
Manager: Wong Lam Fai, Philip

15 **Mongkok Branch**
G/F, JCG Building, 16 Mongkok Road
Tel: 2391 8393 Fax: 2391 6909
Manager: Chan Sau Ping, Rebecca

16 **San Po Kong Branch**
Shop B, G/F, Perfect Industrial Building
31 Tai Yau Street
Tel: 2326 8318 Fax: 2326 9180
Manager: Lau Keung Fai, David

17 **Cheung Sha Wan Branch**
Unit C2, G/F, 746 Cheung Sha Wan Road
Tel: 2786 9858 Fax: 2786 9506
Manager: Lai Siu Yee, Flora

18 **Wong Tai Sin Branch**
Shop 641-642, 6/F,
Tsz Wan Shan Shopping Centre
Tel: 2328 7332 Fax: 2328 7991
Manager: Kwong Hon Wun, Peter

19 **To Kwa Wan Branch**
Shop D, G/F, In House,
No. 307 To Kwa Wan Road
Tel: 2362 0238 Fax: 2362 3999
Manager: Choi Kam Yee, Catalina

20 **Prince Edward Branch**
G/F, 751 Nathan Road
Tel: 2397 3830 Fax: 2397 1006
Manager: Leung Yuen Fan, Maggie

21 **Tai Kok Tsui Branch**
Shop 2B, G/F, Tai Chuen Building
88-102 Ivy Street
Tel: 2392 1538 Fax: 2392 1101
Manager: So Tak Fai, Peter

22 **Tsim Sha Tsui Branch**
G/F, 27 Cameron Road
Tel: 2721 1218 Fax: 2721 1028
Manager: Yam Oi Yin, Pauline

New Territories

23 **Yuen Long Branch**
Shop 5, G/F, Fu Ho Building
3-7 Kau Yuk Road
Tel: 2479 4265 Fax: 2473 3934
Manager: Fong Fung Mei, Marisa

24 **Tsuen Wan Branch**
G/F, Victory Court, 185-187 Castle Peak Road
Tel: 2490 4191 Fax: 2490 4811
Manager: Kan Pak Ling, Lucia

25 **Kwai Chung Branch**
Shop 88B of Trendy Place,
3/F, Kwai Chung Plaza
7-11 Kwai Foo Road
Tel: 2480 0002 Fax: 2401 2367
Manager: Lau Yiu Fai, Lawrence

26 **Tai Po Branch**
Eastmost Shop on G/F,
Nos. 37/39 Po Yick Street
Tel: 2657 2861 Fax: 2657 7389
Manager: Tsang Wai Chor

27 **Fanling Branch**
G/F, 11 Wo Lung Street
Luen Wo Market
Tel: 2669 1559 Fax: 2669 8780
Manager: Kee Ka Wai

28 **Sheung Shui Branch**
G/F, 73 San Fung Avenue
Tel: 2639 0307 Fax: 3124 0091
Manager: Chong Mei Kuen, Joe

29 **Tuen Mun Branch**
Shop E, G/F, Kam Lai Building
Nos. 1-7 Kai Man Path
Tel: 2440 1298 Fax: 2440 1398
Manager: Lam Wong Kan, Kent

30 **Sai Kung Branch**
G/F, 16 Yi Chun Street
Tel: 2792 8588 Fax: 2791 0077

31 **Tseung Kwan O Branch**
G105-106, G/F, Metro City Plaza I
Tel: 2701 7688 Fax: 2701 7628
Manager: Lau Chi Kai, Thomas

32 **Shatin Branch**
Shop Nos. 4-6B,
Lucky Plaza Commercial Centre
Tel: 2601 6308 Fax: 2601 3686
Manager: Wong Sze Mui, Rhoda

China

33 **Shenzhen Branch**
Shop No. 1, G/F, Carrianna Friendship Square
Renminnan Road, Shenzhen
People's Republic of China
Tel : (86-755) 2518 2822
Fax : (86-755) 2518 2327
Manager : Cheung Po Tung, David

34 **Futian Sub-branch**
1-3 Jinrun Mansion, No. 6019 Shennan Road
Futian District, Shenzhen
People's Republic of China
Tel : (86-755) 8280 0026
Fax : (86-755) 8280 0016
Manager : Ye Jun Liang, Leo

35 **Shekou Sub-branch**
Shop No.155-156, Coastal Building (East Block)
Hai De San Dao, Nanshan District, Shenzhen
People's Republic of China
Tel : (86-755) 8627 1388
Fax : (86-755) 8627 0699
Manager : Ying Wei Jun, Yoyo

Shenyang Representative Office
Unit 1801, 18/F, Sunwah Hi-tech Building
No. 262 Shifu Road, Shenhe District, Shenyang
Liaoning Province, People's Republic of China
Tel : (86-24) 2279 1368
Fax : (86-24) 2279 1369
Representative : Li Yu Jie

Shanghai Representative Office
Room G, 8/F, Majesty Building
138 Pu Dong Avenue, Shanghai
People's Republic of China
Tel : (86-21) 5887 8851
Fax : (86-21) 5887 9951
Representative : Chen Li Hang

Taipei Representative Office
Room 905, 9/F, No. 18 Section 1
Chang-An E. Road, Taipei, Taiwan
Tel : (886-2) 2563 8789
Fax : (886-2) 2564 2047
Representative : Lu Chia Nan, Deanna

Public Finance Limited Branch Network

Head Office and Branches

Head Office
1105-7 Wing On House, 71 Des Voeux Road Central
Tel : 2525 9351 Fax : 2845 0681
P.O. Box : G.P.O. Box 11102
Website : www.publicfinance.com.hk

Hong Kong Island

1 **World-Wide House Branch**
Rm 2, 3 and 5, 20/F, World-Wide House
19 Des Voeux Road Central
Tel: 2522 4067 Fax: 2537 3623
Manager: Sze Jane M.

2 **Queen Victoria Street Central Branch**
G/F, 14 Queen Victoria Street
Tel: 2526 6415 Fax: 2877 9088
Manager: Choy Ka Tung, Marine

3 **Central Branch**
M/F, Chung Nam House
59 Des Voeux Road Central
Tel: 2524 8676 Fax: 2877 9084
Manager: Leung Kwok Fai, Eric

4 **Wing On House Branch**
Room 1109-10, Wing On House
71 Des Voeux Road Central
Tel: 2524 5603 Fax: 2537 2909
Manager: Caponpon D. C. Felisa

5 **Wanchai Branch**
G/F, 170 Hennessy Road
Tel: 2574 6245 Fax: 2893 6653
Manager: Li Kit Shing, Joe

6 **Tin Lok Lane Branch**
G/F, Foo Tak Building,
365 Hennessy Road
Tel: 2891 7028 Fax: 2893 3769
Manager: Li Wai Yin

7 **Causeway Bay Branch**
G/F, 449 Hennessy Road
Tel: 2893 6575 Fax: 2893 2770
Manager: Chan Chiu Ming Peter

8 **North Point Branch**
Shop No. 1, G/F, Wah Hing Building
449-455 King's Road
Tel: 2561 0160 Fax: 2856 3647
Manager: Lai Yu Tong

9 **Shaukeiwan Branch**
G/F, 134 Shaukeiwan Road
Tel: 2567 0461 Fax: 2885 8501
Manager: Yeung Lok Shan, Diane

10 **Shek Tong Tsui Branch**
Shop G1, Hong Kong Plaza
188 Connaught Road West
Tel: 2817 6125 Fax: 2817 7618
Manager: Hui Kam Tong, Samson

11 **Western District Branch**
G/F, 161 Des Voeux Road West
Tel: 2547 9148 Fax: 2546 1142
Manager: Miu Ka Lok, Patrick

12 **Aberdeen Branch**
Shop A, G/F, Kong Kai Bldg
184-188 Aberdeen Main Road
Tel: 2553 8231 Fax: 2554 3897
Manager: Chan Sze Mou, Ken

13 **Chai Wan Branch**
G/F, Flat B, 77 Walton Estate
341-343 Chai Wan Road
Tel: 2557 8003 Fax: 2557 4088
Manager: Choi Wai Man

14 **Quarry Bay Branch**
G/F, 14 Hoi Kwong Street
Tel: 2516 6368 Fax: 2579 0084
Manager: Fung Kit Ying, Irene

15 **Admiralty Branch**
Shop 2010, 2/F, United Centre
95 Queensway
Tel: 2520 1323 Fax: 2520 6889
Manager: Li Chu Wai, Frankie

Kowloon

16 **Star House Branch**
Shop B9-B10, B/F.,
Star House Plaza
3 Salisbury Road
Tel: 2730 8395 Fax: 2730 2346
Manager: Lai Wing Yee, Maggie

17 **Tsimshatsui Branch**
Shop No. 51-53, 1/F, Harbour Crystal Centre
100 Granville Road
Tel: 2369 3236 Fax: 2311 0433
Manager: Tong Woon Shing

18 **Jordan Road Branch**
Shop 2A, G/F, Kent Building,
39&39A Jordan Road
Tel: 2736 4711 Fax: 2314 8432
Manager: Lo Hau Fu, Rex

19 **Nathan Road Branch**
G/F, Ruby Commercial Building,
480 Nathan Road
Tel: 2771 5285 Fax: 2770 4127
Manager: Ho Kwok Sin, Tom

20 **Mongkok Branch**
Flat B, 1/F, JCG Building, 16 Mongkok Road
Tel: 2394 0253 Fax: 2787 5630
Manager: Kwan Wai Choi, Samuel

21 **Shamshuipo Branch**
Shop B, G/F, Wing Sing Building,
27 Castle Peak Road
Tel: 2728 2347 Fax: 2729 9685
Manager: Wu Kin Sang, Wilson

22 **Cheung Sha Wan Branch**
Unit C1, G/F, 746 Cheung Sha Wan Road
Tel: 2744 5416 Fax: 2785 3634
Manager: Cheung Chun Ming, Jimmy

23 **Hunghom Branch**
G/F, 130 Ma Tau Wai Road
Tel: 2334 4307 Fax: 2764 4876
Manager: Cheung Chu Ming, Albert

24 **Sanpokong Branch**
G/F, 92 Shung Ling Street
Tel: 2328 3175 Fax: 2325 4504
Manager: Ng Chung Tak

25 **Kowloon City Branch**
Shop B, G/F, 45-47 Lung Kong Road
Tel: 2382 4893 Fax: 2716 4819
Manager: Tsang Ka Ying, Grace

26 **Tokwawan Branch**
G/F, Tokwawan Mansion,
289 Tokwawan Road
Tel: 2365 7061 Fax: 2764 2832
Manager: Man Wing Sun, Ethan

27 **Kwun Tong Branch**
G/F, 367 Ngau Tau Kok Road
Tel: 2344 0264 Fax: 2763 5427
Manager: Lee Man Fai, Eric

28 **Wong Tai Sin Branch**
G/F, Wing Kin Mansion
89 Fung Tak Road
Tel: 2320 5112 Fax: 2726 0106
Manager: Yuen Siu Tong, Tommy

29 **Prince Edward Branch**
G/F, 19 Ki Lung Street
Tel: 2380 3260 Fax: 2380 4100
Manager: Leung Sze Wan, Irene

30 **Ngau Tau Kok Branch**
Shop 29, G/F, Wang Kwong House
33 Ngau Tau Kok Road
Tel: 2757 8299 Fax: 2757 8737
Manager: Cheung Wa Wai, Victor

31 **Kowloon Bay Branch**
Shop No. 7, G/F, Exchange Tower
33 Wang Chiu Road
Tel: 2756 7320 Fax: 2758 5706
Manager: Wong Shing To, Alfred

32 **Tseung Kwan O Branch**
Shop No. S12A, G/F, Bauhinia Garden,
11 Tong Chun Street
Tel: 3194 4312 Fax: 3194 4377
Manager: Yip Hon Shing

New Territories

33 **Kwai Chung Branch**
Shop 86A and 88A, 3/F, Kwai Chung Plaza
7-11 Kwai Foo Road
Tel: 2420 0121 Fax: 2485 0590
Manager: Chan Ching Yeung

34 **Tsuen Wan Branch**
G/F, 281 Sha Tsui Road
Tel: 2493 4187 Fax: 2417 4497
Manager: Cheng Ho Fat, Ricky

35 **Tuen Mun Branch**
Shop 7, G/F, Mei Hang Bldg, Kai Man Path
Tel: 2457 2901 Fax: 2440 2503
Manager: Wong Wai Keung, Thomas

36 **Yuen Long Branch**
G/F, 182 Main Road
Tel: 2476 2146 Fax: 2475 9903
Manager: Law Shue Sum, Dennis

37 **Tai Po Branch**
Shop C, G/F, Kwong Fuk Place,
8 Kwong Fuk Road
Tel: 2656 5207 Fax: 2657 7019
Manager: Lau Lai Kan, Caren

38 **Shatin Branch**
Portion of Shop 4-6B,
Lucky Plaza Commercial Centre
Tel: 2699 5633 Fax: 2691 4588
Manager: Suen Kin Yip, Leo

39 **Sheung Shui Branch**
G/F, 99 San Fung Avenue
Tel: 2673 2729 Fax: 2673 9278
Manager: Kong Tsan Wing, Murphy

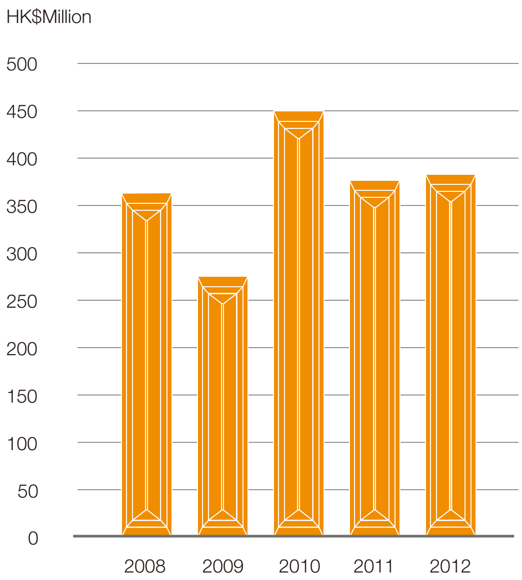
40 **Tai Wai Branch**
Shop 2C, G/F, On Tai Building
11-13 Chik Fai Street
Tel: 2609 2611 Fax: 2609 4088
Manager: Chan Ho Ming, Jan

41 **Nan Fung Centre Branch**
Rm 1523, Nan Fung Centre
264-298 Castle Peak Road, Tsuen Wan
Tel: 2414 1198 Fax: 2413 1624
Manager: Lau Hiu Long, Garros

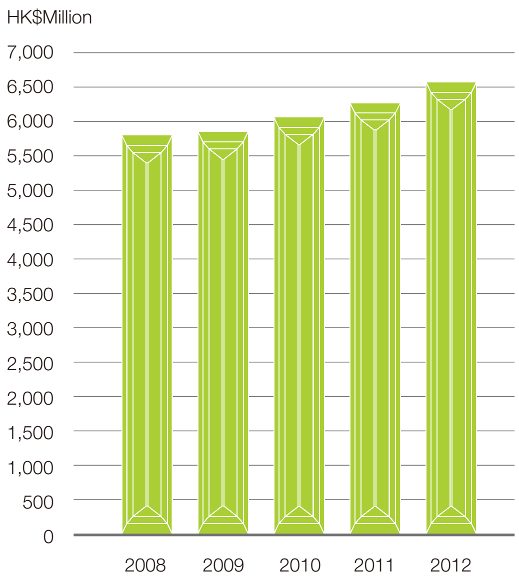
42 **Fanling Branch**
Shop 1, G/F, Wo Fung Court
8 Wo Fung Street, Luen Wo Market
Tel: 2669 0260 Fax: 2669 1187
Manager: Law Man Yan

Five-year Financial Summary

Profit



Equity



2012 Financial Highlights

Profit for the year:	**HK$381.6 million**
Gross loans and advances and trade bills:	**HK$27,182.3 million**
Total deposits:	**HK$30,562.3 million**
Equity:	**HK$6,525.3 million**
Earnings per share:	
Basic	**HK$0.348**
Diluted	**HK$0.348**
Total dividends per share:	**HK$0.140**

A summary of the results and of the assets and liabilities of Public Financial Holdings Limited (the "Company") and its subsidiaries (the "Group") for the last five financial years, as extracted from the published audited financial statements, is set out below. The amounts for each year in the five-year financial summary have been adjusted for the effects on the retrospective change in the accounting policy affecting deferred tax on investment properties, as detailed in note 5 to the financial statements.

	2012 HK$'000	2011 HK$'000 (Restated)	2010 HK$'000 (Restated)	2009 HK$'000 (Restated)	2008 HK$'000 (Restated)
Cash and short term placements, and placements with banks and financial institutions maturing after one month but not more than twelve months	**4,825,419**	5,088,809	6,745,080	6,474,103	5,958,371
Gross loans and advances and trade bills	**27,182,337**	27,628,770	26,882,121	24,587,228	24,428,368
Held-to-maturity investments	**4,556,217**	3,421,503	2,709,776	4,216,634	969,216
Goodwill	**2,774,403**	2,774,403	2,774,403	2,774,403	2,774,403
Other assets	**1,197,466**	1,053,880	1,218,258	1,320,686	1,199,307
Total assets	**40,535,842**	39,967,365	40,329,638	39,373,054	35,329,665
Deposits and balances of banks and other financial institutions at amortised cost	**538,296**	1,246,092	680,382	1,024,628	641,732
Customer deposits at amortised cost	**29,374,122**	28,334,785	29,670,825	29,364,238	24,184,416
Certificates of deposit issued at amortised cost	**649,833**	513,315	200,000	–	879,850
Dividends payable	**98,812**	120,771	175,667	142,729	197,625
Unsecured bank loans at amortised cost	**2,960,437**	2,960,734	3,038,991	2,178,679	3,249,219
Other liabilities	**389,049**	499,884	489,527	823,163	402,987
Total liabilities	**34,010,549**	33,675,581	34,255,392	33,533,437	29,555,829
Equity	**6,525,293**	6,291,784	6,074,246	5,839,617	5,773,836
Profit for the year	**381,571**	375,965	451,987	278,142	361,246
Basic earnings per share (HK$)	**0.348**	0.342	0.412	0.253	0.329
Diluted earnings per share (HK$)	**0.348**	0.342	0.412	0.253	0.329

Chairman's Statement

Tan Sri Dato' Sri Dr. Teh Hong Piow, *Chairman*

I am pleased to present a review of the performance of the Group for the financial year ended 31 December 2012.

Group Financial Performance

The Group recorded a profit after tax of HK$381.6 million for the year ended 31 December 2012, representing an increase of HK$5.6 million or 1.5% when compared to the previous year. Total loans and advances (including trade bills) of the Group decreased by HK$446.4 million or 1.6% to HK$27.18 billion as at 31 December 2012 from HK$27.63 billion as at 31 December 2011. Customer deposits of the Group increased by HK$1.04 billion or 3.7% to HK$29.37 billion as at 31 December 2012 from HK$28.33 billion as at 31 December 2011.

The Group's basic earnings per share for 2012 was HK$0.35. The Board of Directors had declared a first interim dividend of HK$0.05 per share in June 2012 and a second interim dividend of HK$0.09 per share in December 2012. The Board of Directors does not recommend the payment of a final dividend, making a total dividend of HK$0.14 per share for 2012 (2011: HK$0.16 per share). The total dividend declared for the year amounted to HK$153.7 million.

Financial Review

For the year under review, the Group's net interest income increased by HK$25.5 million or 2.1% to HK$1.24 billion from HK$1.21 billion in the previous year mainly due to an increase in net interest margin of the loan business of the Group. Total operating income of the Group decreased by HK$33.1 million or 2.2% to HK$1.46 billion for 2012, whilst total operating expenses (before change in fair value of investment properties) increased by HK$9.9 million or 1.4%. The decrease in operating income by HK$33.1 million or 2.2% was mainly due to the decrease in income from the Group's stockbroking business and the additional goodwill income of HK$8.1 million received from ING in the previous year. The increase in operating expenses by HK$9.9 million or 1.4% was mainly due to increase in staff costs and branch premises related costs. Impairment allowances for loans and advances decreased by HK$11.4 million or 3.5% to HK$316.1 million when compared to the previous year.

Business Development of the Group

In 2012, Public Bank (Hong Kong) Limited ("Public Bank (Hong Kong)"), a wholly-owned subsidiary of the Company which has a branch network of 32 branches in Hong Kong and 3 branches in Shenzhen in the People's Republic of China ("PRC"), continued to focus on providing a broad range of commercial and retail banking services to its targeted market segments. Public Finance Limited ("Public Finance"), a wholly-owned subsidiary of Public Bank (Hong Kong), which has a branch network of 42 branches in Hong Kong, continued to focus in its core business in personal lending. Another subsidiary of the Company, Winton Financial Limited ("Winton Financial"), which operates under a money lenders licence, has a network of 9 branches in Hong Kong to provide personal financing to its target customer segment. In total, the Group has a combined network of 83 branches in Hong Kong and 3 branches in the PRC.

Loans and Deposits

During the year under review, the Group's total loans and advances (including trade bills) decreased by HK$446.4 million or 1.6% to HK$27.18 billion as at 31 December 2012. Public Bank (Hong Kong) recorded a decrease in total loans and advances (including trade bills) of HK$524.3 million or 2.3% to HK$22.37 billion as at 31 December 2012. Public Finance recorded an increase in total loans and advances of HK$52.6 million or 1.1% to HK$4.63 billion as at 31 December 2012. The Group's impaired loans to total loans ratio improved to 0.84% as at 31 December 2012 from 1.00% as at 31 December 2011. Customer deposits increased by HK$1.04 billion or 3.7% to HK$29.37 billion as at 31 December 2012 from HK$28.33 billion as at 31 December 2011.

The Group will continue to focus in expanding its retail and commercial banking and consumer loans businesses through the extensive branch network of the Group, offering innovative products and pursuing aggressive marketing activities and competitive pricing strategies whilst providing excellent customer service. The Group will continue to adopt prudent and flexible business strategies and adjust to market changes accordingly in the expansion of its customer base and business.

The Group will continue to seek further synergies in developing the Group's businesses as well as to enhance its operating cost efficiency through cross selling of the Group's products and services, and streamline the support services of the combined branch networks of Public Bank (Hong Kong) and Public Finance.

Acknowledgement

On behalf of the Board of Directors, I wish to take this opportunity to express our appreciation to the management and staff of the Group for their commitment, dedication and perseverance, and sincere gratitude to our customers for their invaluable patronage, and to the shareholders for their continued confidence in and support of the Group. I would also like to express our appreciation and gratitude to the Hong Kong Monetary Authority, the Securities and Futures Commission, The Stock Exchange of Hong Kong Limited and other relevant authorities for their invaluable advice, guidance and support.

Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman

Management Discussion and Analysis

Business Review

Overview

During the year under review, the global economic conditions remained volatile with slow and uncertainty in the resolution of the European debt issues and in the recovery of the US economy. The quantitative easing monetary policy in the US continued to have an impact on the low HIBOR interest rate environment of Hong Kong putting pressure on net interest margins of local financial institutions. Inflationary effects from higher rental and staff costs in Hong Kong and the measures implemented by the Hong Kong Government to curb rising prices of residential properties have adversely affected domestic loan demands and earnings growth of financial institutions in Hong Kong. The Group's banking and finance lending businesses were also affected by narrowing net interest margin and slower loan growth.

Financial Review

Revenue and earnings

For the year ended 31 December 2012, the Group recorded a profit after tax of HK$381.6 million, representing an increase of HK$5.6 million or 1.5% when compared to the profit after tax of HK$376.0 million as restated in the previous year.

The Group's basic earnings per share for 2012 was HK$0.35. The Board of Directors had declared a first interim dividend of HK$0.05 per share in June 2012 and a second interim dividend of HK$0.09 per share in December 2012. The Board of Directors does not recommend the payment of a final dividend, making a total dividend for the year of HK$0.14 per share (2011: HK$0.16 per share).

For the year under review, the Group's net interest income increased by HK$25.5 million or 2.1% to HK$1.24 billion. Interest income increased by HK$53.3 million or 3.4% to HK$1.64 billion whilst interest expense increased by HK$27.8 million or 7.4% to HK$405.0 million.

Total operating income of the Group decreased by HK$33.1 million or 2.2% to HK$1.46 billion for 2012. The decrease in operating income was mainly due to decrease in fee income from the Group's stockbroking activities of HK$41.4 million in the current year and the additional goodwill income of HK$8.1 million received from ING in the previous year. Total operating expenses (before changes in fair value of investment properties) increased by HK$9.9 million or 1.4% to HK$744.1 million, mainly due to increase in staff costs and rental costs on branch premises. Gains from the change in fair value of investment properties increased by HK$53.3 million to HK$60.0 million as compared to the previous year.

Impairment allowances for loans and advances decreased by HK$11.4 million or 3.5% to HK$316.1 million in 2012 as compared to HK$327.6 million in the previous year. Impairment allowance of HK$34.2 million in relation to the Lehman Brothers Minibonds purchased was written back in the previous year from the recovery of proceeds received from the underlying collaterals.

Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) decreased by HK$446.4 million or 1.6% to HK$27.18 billion as at 31 December 2012 from HK$27.63 billion as at 31 December 2011. Customer deposits increased by HK$1.04 billion or 3.7% to HK$29.37 billion as at 31 December 2012 from HK$28.33 billion as at 31 December 2011.

As at 31 December 2012, the Group's total assets stood at HK$40.54 billion, an increase of HK$568.5 million when compared to the position as at 31 December 2011.

Financial Review (Continued)

Branch network

Public Bank (Hong Kong), a subsidiary of the Company, has 32 branches in Hong Kong and 3 branches in Shenzhen in the PRC to provide a broad range of commercial and retail banking services. Public Finance, a subsidiary of Public Bank (Hong Kong), has a network of 42 branches in Hong Kong. Winton Financial, another operating subsidiary of the Company, which operates under a money lenders licence, has a network of 9 branches in Hong Kong to provide personal financing to its target customer segment. In total, the Group has a combined branch network of 86 branches as at 31 December 2012 to serve its customers.

Business performance

Public Bank (Hong Kong)

During the year under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) recorded a decrease of HK$524.3 million or 2.3% to HK$22.37 billion as at 31 December 2012 from HK$22.89 billion as at 31 December 2011. The decrease in loans was partly due to the repayment of some syndicated loans which Public Bank (Hong Kong) did not seek to refinance, and the drop in demand for residential mortgage loans. Customer deposits increased by HK$654.7 million or 2.6% to HK$25.74 billion as at 31 December 2012 from HK$25.08 billion as at 31 December 2011.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) stood at 19.6% as at 31 December 2012. It has no exposure attributed directly to structured investment vehicles, US-subprime mortgages and the five "PIIGS" countries namely Portugal, Italy, Ireland, Greece and Spain as at the end of 2012.

Public Bank (Hong Kong) will continue to develop and expand its retail banking business and customer base, identify suitable locations for the relocation of its branches to better sites in order to expand its reach of existing and potential customers, and develop its banking related financial services businesses.

Public Finance

Total loans and advances of Public Finance recorded a growth of HK$52.6 million or 1.1% to HK$4.63 billion as at 31 December 2012 from HK$4.58 billion as at 31 December 2011. Customer deposits increased by HK$374.3 million or 10.8% to HK$3.83 billion as at 31 December 2012 from HK$3.46 billion as at 31 December 2011. Public Finance's capital adequacy ratio stood at 27.7% as at 31 December 2012.

Public Finance will continue to focus on its consumer financing business and deposit taking.

Segmental information

The Group's businesses comprise three main segments: (i) retail and commercial banking businesses, (ii) stockbroking and wealth management services, and (iii) other businesses. 96% of the Group's operating income and 83% of the profit before tax were contributed by retail and commercial banking businesses for the year under review. When compared to the previous year, the Group's operating income from retail and commercial banking businesses increased by HK$21.6 million or 1.6% to HK$1,396.6 million. Profit before tax from retail and commercial banking businesses for 2012 decreased by HK$43.5 million or 10.3% to HK$378.2 million mainly due to recovery of impairment allowance of HK$34.2 million in relation to the Lehman Brothers Minibonds in the previous year.

Management Discussion and Analysis

Financial Review (Continued)

Contingent liabilities and commitments

The Group has no material contingent liabilities (other than those in the normal course of its banking and finance businesses related to treasury and trade finance activities and loan commitments disclosed in the notes to the financial statements) as at the end of the year under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the year under review. As at 31 December 2012, there was no charge over the assets of the Group.

Operational Review

Funding and capital management

The main objective of the Group's funding activities is to ensure the availability of funds at reasonable cost to meet all contractual financial commitments, to fund growth in loans and advances and to generate reasonable returns from available funds. The Group also encourages its subsidiaries to be self-reliant on the funding of their business growth.

The Group relies principally on its internally generated capital, customer deposits, deposits from financial institutions and the issuance of certificates of deposit to fund its retail consumer financing business and its retail and commercial banking businesses. The Group's bank borrowings in the form of term loans denominated in Hong Kong dollars at floating interest rates stood at HK$2.96 billion as at the end of 2012. Based on the level of bank borrowings as compared to the equity of the Group, the Group's gearing ratio stood at a healthy level of 0.45 times as at 31 December 2012. The bank borrowings have remaining maturity periods of less than 2 years. In the normal course of its commercial banking business, Public Bank (Hong Kong) had entered into foreign exchange and interest rate swap and forward contracts to reduce the foreign exchange rate risk and interest rate risk exposures of the Group. Exposures to fluctuations in foreign exchange rates and interest rates were minimal during the year under review.

Asset quality

The Group's impaired loans to total loans ratio improved to 0.84% as at 31 December 2012 from 1.00% as at 31 December 2011. The Group will continue to adopt prudent credit underwriting standards, pursue recovery of problem loans diligently, safeguard its capital adequacy and liquidity positions, and set prudent yet flexible business development strategies to strike a balance between business growth and managing risk.

Human resource management

The objective of the Group's human resource management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression within the Group. Staff are enrolled in external training courses, seminars, professional and technical courses with appropriate sponsorship from the Group in order to update their technical knowledge and skills, to increase their awareness of the market developments, and to improve their management and business skills. Staff are also encouraged to participate in social activities organised by the Group to promote team spirit and build a cohesive workforce.

Options to subscribe for 66,526,000 shares in the Company were granted to employees of the Group in May 2005 pursuant to the Company's employees' share option scheme approved by shareholders on 28 February 2002. In 2012, no options to subscribe for shares in the Company were exercised by employees of the Group. As at 31 December 2012, options to subscribe for 25,375,000 shares in the Company remained unexercised.

As at 31 December 2012, the Group's staff force stood at 1,416 employees. For the year ended 31 December 2012, the Group's total staff-related costs amounted to HK$418.5 million.

Prospects

Competition in the banking and financing industry in Hong Kong is expected to remain keen and will intensify with financial institutions seeking greater market share in loans and advances, customer deposits, and other banking and financing businesses. The competitive environment will continue to exert pressure on the pricing of banking and financing products in Hong Kong. The slow economic recovery and concerns over the US fiscal issues, the unresolved European debt issues, and signs of overheated property market in the PRC will add uncertainties and complexities to the economy growth outlook of Hong Kong. Net interest margin on loans of financial institutions in Hong Kong will remain under pressure whilst operating costs are on the rise, thus affecting the earnings of financial institutions in the year ahead.

Notwithstanding the aforesaid, the Group will adjust the business strategies and exercise cost controls measures where appropriate to maintain stable profit margins from the loans and deposits business. The Group will also continue to focus on expanding its retail and commercial banking business and its consumer finance business cautiously with sound marketing strategies and excellent customer service. The Group will continue to seek greater synergies within its business operations to cross-sell the Group's products and services through the combined branch network of Public Bank (Hong Kong), Public Finance and Winton Financial.

The Group will continue to pursue long-term business growth objectives, and take steps to align business strategies in line with future expansion plans and earnings growth with prudent capital and funding management in meeting the challenges ahead.

Barring unforeseen circumstances, the Group expects to register growth in its businesses and financial performance. The Group is also committed to fostering a healthy and strong corporate culture to enhance the Group's cohesiveness with shared vision and values by every staff in the Group.

Corporate Governance Report

Corporate Governance Practices

The board of directors (the "Board") of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained to safeguard the interests of our shareholders, investors, customers and staff.

The Company has complied with the code provisions ("Code Provisions") of the former Code on Corporate Governance Practices (the "Former Code") and of the new Corporate Governance Code (the "CG Code") effective from 1 April 2012 as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except for the deviation in respect of a specific service term for Non-executive Directors as required under Code Provision A.4.1 of the Listing Rules. However, the Non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting ("AGM") of the Company. The principles as set out in the CG Code have been applied in our corporate governance structure.

In view of the latest amendments to the Listing Rules and the CG Code, the Board has taken actions and measures to make sure that the Company is in all aspects in strict compliance. The current practices will be reviewed and updated regularly to be in line with the local and international corporate governance practices.

Public Bank (Hong Kong) and Public Finance, both being the major subsidiaries of the Company, are a licensed bank and a deposit taking company respectively. They are incorporated in Hong Kong and are under the supervision of the Hong Kong Monetary Authority ("HKMA"). The respective Boards are fully committed to adopting and implementing the principles and best practices in corporate governance as set out in the guidelines on "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the HKMA. Specialised committees with clear terms of references and specific authorities delegated by the Boards have been set up by Public Bank (Hong Kong) and Public Finance.

Business Model and Strategy

The Group has the mission to excelling in customer service in retail and commercial banking and other businesses whilst maintaining long term profitability and assets growth with adoption of flexible business model and strategy and prudential risk and capital management framework. The Board and the Management have played and will continue to play a proactive role in the Group's development of business model to preserve the culture of the Group in serving customers well with premium service quality; the Group's business strategic drive for business expansion and opportunities; the input to setting the Group's risk appetite and tolerance levels; and the Group's setting of strategic goals, priorities and initiatives undertaken to motivate staff to achieve business and financial targets. During the meetings of the Boards, the Executive Committees and the Management Committees held by the Group companies during the year 2012, strategic priorities and business options were discussed and followed up on the implementation status. Details of the Group's Business Review and Financial Review in the year 2012 are set out in the "Management Discussion and Analysis" section of this annual report.

Board of Directors

Board Composition

The Board of the Company for the year comprises:

Non-executive Directors	:	Tan Sri Dato' Sri Dr. Teh Hong Piow, *Chairman* Tan Sri Dato' Sri Tay Ah Lek Dato' Chang Kat Kiam Chong Yam Kiang
Independent Non-executive Directors	:	Tan Sri Datuk Seri Utama Thong Yaw Hong, *Co-Chairman* Lee Chin Guan Quah Poh Keat
Executive Directors	:	Tan Yoke Kong Lee Huat Oon

Board of Directors (Continued)
Board Composition (Continued)

The Non-executive Directors provide the Group with a wide range of expertise and knowledge in the banking and finance sector. The Independent Non-executive Directors are persons of high calibre; with academic and professional qualifications in the fields of accounting, law, banking and business management. With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. The Independent Non-executive Directors do not participate in the day-to-day management of the Company and do not involve themselves in business transactions or relationships with the Company, in order not to compromise their objectivity. In staying clear of any potential conflict of interest, the Independent Non-executive Directors remain in a position to fulfill their responsibility to provide check and balance to the Board of the Company. All the Independent Non-executive Directors who served in 2012 have given annual confirmations of their independence to the Company, and the Company considers these directors to be independent under Rule 3.13 of the Listing Rules.

The list of directors of the Company and their roles and functions is posted on the websites of the Company and the Stock Exchange.

The Board formulates overall strategic plans and key policies of the Group, monitors its financial performance, maintains effective oversight over the management, risks assessment, controls over business operations and ensures good corporate governance and compliance with legal and regulatory requirements. The Board members are fully committed to their roles and have acted in good faith to maximise the shareholders' value in the long run, and have aligned the Group's goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

Board Process

The schedule of Board meetings for a year is planned in the preceding year. At least 14 days' notice of all Board meetings is given to all directors and they can include matters for discussion in the agenda if the need arises. The Company Secretary assists the Board in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. The agenda and the accompanying Board papers are sent to all directors at least 3 days before the date of Board meeting so that the directors have the time to review the documents.

The Board meetings are chaired by the Independent Non-executive Co-Chairman, Tan Sri Datuk Seri Utama Thong Yaw Hong, who has the responsibility of ensuring that each of the agenda items is adequately reviewed and thoroughly deliberated within a reasonable time frame.

Minutes of each Board meeting are circulated to all directors for their perusal prior to confirmation of the minutes at the subsequent Board meeting. The directors may request for clarification or raise comments before the minutes are tabled for confirmation. Upon receiving confirmation from the members at the Board meetings, the minutes will be signed by the Chairman of the meeting as a correct record of the proceedings of the meeting and kept by the Company Secretary.

Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary to enable them to discharge their duties effectively, and has the liberty to seek external professional advice if so required. The cost of procuring these professional services will be borne by the Company. The Board also has direct access to the senior management and has unrestricted and immediate access to any information relating to the Company's business and affairs in the discharge of their duties. The directors may request to be furnished with additional information or clarification, particularly in respect of complex and technical issues tabled to the Board. The Company Secretary continuously updates all directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

Corporate Governance Report

Board of Directors (Continued)

Board Process (Continued)

During the year, ten scheduled Board meetings were held and the attendance of each director is set out as follows:

Name of director	Number of meetings attended in 2012	Attendance rate
Tan Sri Dato' Sri Dr. Teh Hong Piow, *Chairman*	10/10	100%
Tan Sri Datuk Seri Utama Thong Yaw Hong, *Co-Chairman*	10/10	100%
Tan Yoke Kong	10/10	100%
Chong Yam Kiang	10/10	100%
Lee Huat Oon	10/10	100%
Tan Sri Dato' Sri Tay Ah Lek	10/10	100%
Dato' Chang Kat Kiam	10/10	100%
Lee Chin Guan	10/10	100%
Quah Poh Keat	10/10	100%

Board meetings were held to discuss the business strategies of the Group; monitor financial and operational performance; approve the annual and interim results of the Group; discuss the corporate governance functions of the Board; review the Group's policies and practices in compliance with legal and regulatory requirements; and review the codes applicable to directors and employees.

During the year, a meeting of the Chairman and the Non-executive Directors (including Independent Non-executive Directors) without presence of the Executive Directors and the management was held to discuss and review the performance of the Executive Directors and the management, and the adequacy of systems and controls in place to safeguard the interests of the Group.

Chairman and Chief Executive

The Chairman and the Chief Executive of the Company are Tan Sri Dato' Sri Dr. Teh Hong Piow and Mr. Tan Yoke Kong respectively. Tan Sri Datuk Seri Utama Thong Yaw Hong, an Independent Non-executive Director, is the Co-Chairman of the Group who assists and shares the duties and functions of the Chairman.

The roles of the Chairman and the Chief Executive are segregated and assumed by two separate individuals who have no relationship with each other. It is aimed at striking a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman of the Board is responsible for the leadership and effective running of the Board, while the Chief Executive is delegated with the authorities to manage the business of the Group in all aspects effectively. The division of responsibilities between the Chairman and the Chief Executive has been clearly established and set out in writing.

Appointment and Re-election of Directors

The Company has not fixed a specific term of appointment for Non-executive Directors. However, they are appointed subject to retirement by rotation and re-election at the AGM of the Company in accordance with the provision of the Bye-laws. This deviates from the Code Provision A.4.1 of the CG Code which requires that Non-executive Directors be appointed for a specific term. The Board is of the view that the current practice of appointing Non-executive Directors without specific terms but otherwise subject to rotation and re-election by shareholders is fair and reasonable, and does not intend to change the current practice at the moment.

Directors' Training and Professional Development

All directors should keep abreast of the responsibilities as a director, and of the conduct and business activities of the Company. The Company is responsible for arranging and funding suitable training for its directors. Accordingly, the Company has put in place a training and development programme for the directors including: i) a comprehensive induction programme on the laws and regulations affecting directors and the Company, knowledge and current development of the banking and finance industry and the role, responsibilities and potential liabilities of directors for newly appointed directors; and ii) an on-going training and professional development programme for directors.

Board of Directors (Continued)

Directors' Training and Professional Development (Continued)

During the year under review, there was no change to the composition of the Board members. All the directors of the Company were provided with monthly commentary on the Group's business, operations, and financial matters as well as regular updates on applicable legal and regulatory requirements. The Company had also organised a seminar on the "Update of Directors' Obligations under the Securities and Futures Ordinance and the Corporate Governance Code" for the directors. The seminar was facilitated by an external professional consultant with presentation and briefing materials. All the directors of the Company namely Tan Sri Dato' Sri Dr. Teh Hong Piow, Tan Sri Datuk Seri Utama Thong Yaw Hong, Mr. Tan Yoke Kong, Mr. Chong Yam Kiang, Mr. Lee Huat Oon, Tan Sri Dato' Sri Tay Ah Lek, Dato' Chang Kat Kiam, Mr. Lee Chin Guan and Mr. Quah Poh Keat participated in the said seminar. In addition, individual directors also participated in other courses relating to the roles, functions and duties of a listed company director or further enhancement of their professional development by way of attending training courses or via on-line aids or reading relevant materials.

All directors had provided the Company Secretary with their training records for the year under review.

Directors' Code of Ethics

The directors observe a code of ethics (the "Code of Ethics") which is formulated and adopted to enhance the standard of corporate governance and corporate behaviour. The principles on which the Code of Ethics relies are those that concern transparency, integrity, accountability and corporate social responsibility taking into account the relevant provisions/requirements by the governing authorities.

Directors' Securities Transactions

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors and all directors have confirmed compliance with the required standard as set out in the Model Code throughout the year.

Indemnification of Directors and Officers

The directors and officers are indemnified under a directors' and officers' liability insurance against any liability incurred by them in the discharge of their duties while holding office as the directors and officers of the Company. The directors and officers shall not be indemnified where there is any fraud, breach of duty or breach of trust proven against them.

Board Committees

Audit Committee

The Audit Committee of the Company comprises three Independent Non-executive Directors and one Non-executive Director.

The major roles and functions of the Audit Committee are as follows:

1. To draw up, review and update periodically a written charter of the Audit Committee for the Board's approval.

2. To approve the appointment, resignation or dismissal of the Head of Internal Audit and evaluate his/her performance and remuneration.

3. To approve the Audit Charter drawn up and updated periodically by the Head of Internal Audit.

4. To consider the appointment, reappointment and removal of the external auditors, the audit fees and terms of engagement, and any questions of resignation or dismissal of the external auditors of the Group.

5. To discuss with the external auditors the nature and scope of the audit.

6. To review the interim and annual financial statements before submission to the Board.

7. To discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss.

8. To review the Group's financial controls, internal control and risk management systems.

9. To approve the audit plan and review the effectiveness of internal audit programme, ensure co-ordination between the internal and external auditors as well as regulatory authorities, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group.

10. To consider the major findings of internal investigations and management's response.

11. To review significant recommendations made by Internal Audit Department and management plans for their implementation.

Corporate Governance Report

Board Committees (Continued)
Audit Committee (Continued)

12. To review the external auditors' management letters and to ensure the Board will provide timely response.

13. To report to the Board on the matters set out in the CG Code under the Listing Rules and on the work performed by the Audit Committee and its significant findings.

14. To establish a whistleblowing policy and system for employees of the Group and those who deal with the Group to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place.

The updated terms of reference of the Audit Committee are posted on the websites of the Company and the Stock Exchange.

The Audit Committee meets at least four times a year. Eight meetings were held during the year, two of which in the presence of the external auditors. The minutes of the Audit Committee meetings were tabled to the Board for noting and for action by the Board where appropriate. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2012	Attendance rate
Tan Sri Datuk Seri Utama Thong Yaw Hong, *Chairman*	8/8	100%
Tan Sri Dato' Sri Tay Ah Lek	8/8	100%
Lee Chin Guan	8/8	100%
Quah Poh Keat	8/8	100%

During the year, the Audit Committee had performed the following work:

1. Reviewed the financial reports for the year ended 31 December 2011 and for the six months ended 30 June 2012;

2. Reviewed the audit progress, the findings and recommendations of the Internal Audit Department on the operations and performance of the branches and departments of Public Bank (Hong Kong), Public Finance and other subsidiaries of the Group;

3. Approved the audit plan of the Group companies for 2012;

4. Reviewed the effectiveness of internal control system;

5. Reviewed the examination reports issued by the HKMA in 2012;

6. Reviewed the examination reports issued by Bank Negara Malaysia in 2012;

7. Reviewed the external auditors' statutory audit plan and engagement letters;

8. Reviewed and recommended for approval by the Board the 2012 interim and annual audit scope and fees;

9. Reviewed the external auditors' reports issued pursuant to Sections 63(3) and 63(3A) of the Banking Ordinance and on the audit status and results of the Group companies for the year ended 31 December 2011; and

10. Reviewed the meeting minutes of the Audit Committee of Public Bank (Hong Kong).

Public Bank (Hong Kong) has established its own Audit Committee, with the same composition of members and similar terms of reference as those of the Company's Audit Committee, pursuant to the requirements of the HKMA. It also held eight meetings during the year to discuss the audit findings, audit plan, financial statements, etc. of Public Bank (Hong Kong) and its subsidiaries. The minutes of the Audit Committee meetings of Public Bank (Hong Kong) had been tabled for discussion and noting at the Audit Committee meetings of the Company.

Remuneration Committee

The Remuneration Committee of the Company comprises three Independent Non-executive Directors and one Non-executive Director. In March 2012, Tan Sri Dato' Sri Dr. Teh Hong Piow relinquished his position as the Chairman/ member of the Remuneration Committee and Tan Sri Datuk Seri Utama Thong Yaw Hong was appointed as the Chairman of the Remuneration Committee. The Company has adopted the model to make recommendations to the Board to determine the remuneration packages of individual Executive Directors and senior management.

Board Committees (Continued)

Remuneration Committee (Continued)

The major roles and functions of the Company's Remuneration Committee are as follows:

1. To review annually and recommend to the Board on the overall remuneration policy and structure for the directors, Chief Executive and key senior management officers.

2. To review annually the performance of the Executive Directors, Chief Executive and key senior management officers and recommend to the Board specific adjustments in remuneration and/or reward payments.

3. To ensure that the level of remuneration for Non-executive Directors and Independent Non-executive Directors are linked to their level of responsibilities undertaken and contribution in terms of time commitment to the effective functioning of the Boards of the respective companies in the Group.

4. To keep abreast of the terms and conditions of service of the Executive Directors, Chief Executive and key senior management officers, review and recommend changes to the Board whenever necessary.

5. To review and recommend to the Board the compensation payable to the Executive Directors, Chief Executive and key senior management officers in connection with any loss or termination of their office or appointment.

6. To review and recommend to the Board the compensation arrangements relating to dismissal or removal of directors for misconduct.

7. To ensure that no director or any of his associates is involved in deciding his own remuneration.

The updated terms of reference of the Remuneration Committee are posted on the websites of the Company and the Stock Exchange.

The Remuneration Committee meets at least once a year. The attendance of each member at the Remuneration Committee meetings held in 2012 is set out as follows:

Name of member	Number of meetings attended in 2012	Attendance rate
Tan Sri Datuk Seri Utama Thong Yaw Hong, *Chairman*	2/2	100%
Tan Sri Dato' Sri Tay Ah Lek	2/2	100%
Lee Chin Guan	2/2	100%
Quah Poh Keat	2/2	100%

During the year, the 2012 annual salary review and allocation of discretionary bonus had been reviewed and noted by the members of the Remuneration Committee.

The emolument payable to directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the directors' remuneration are set out in note 12 to the financial statements.

Public Bank (Hong Kong) and Public Finance established their respective Remuneration Committees in 2011, with the same composition of members and similar terms of reference as those of the Company's Remuneration Committee, pursuant to the requirements of CG-5 "Guideline on a Sound Remuneration System" under the Supervisory Policy Manual issued by the HKMA.

Nomination Committee

The Nomination Committee of the Company comprises three Independent Non-executive Directors and one Non-executive Director. In March 2012, Tan Sri Dato' Sri Dr. Teh Hong Piow relinquished his position as the Chairman/ member of the Nomination Committee and Tan Sri Datuk Seri Utama Thong Yaw Hong was appointed as the Chairman of the Nomination Committee.

The major roles and functions of the Company's Nomination Committee are as follows:

1. To assess and recommend to the Board, the appointment and re-appointment of directors and Chief Executive and succession planning for directors, in particular the Chairman and the Chief Executive.

Corporate Governance Report

Board Committees (Continued)
Nomination Committee (Continued)

2. To determine the nomination policy, procedures, process and criteria adopted to select and recommend candidates for directorship.

3. To oversee the overall composition of the respective Boards of the Company, Public Bank (Hong Kong) and Public Finance, in terms of the appropriate size and skills, and the balance between Executive Directors, Non-executive Directors and Independent Non-executive Directors through annual review.

4. To assess the independence of Independent Non-executive Directors.

5. To establish a mechanism for the formal assessment on the effectiveness of the respective Boards as a whole and the performance of each director, Chief Executive and other key senior management officers.

6. To oversee the appointment, management succession planning and performance evaluation of key senior management officers.

The updated terms of reference of the Nomination Committee are posted on the websites of the Company and the Stock Exchange.

The Nomination Committee meets at least once a year. The attendance of each member at the Nomination Committee meetings held in 2012 is set out as follows:

Name of member	Number of meetings attended in 2012	Attendance rate
Tan Sri Datuk Seri Utama Thong Yaw Hong, *Chairman*	2/2	100%
Tan Sri Dato' Sri Tay Ah Lek	2/2	100%
Lee Chin Guan	2/2	100%
Quah Poh Keat	2/2	100%

During the year, the Nomination Committee had reviewed and noted, inter-alia, movement of senior staff in the Group; the Board structure; the annual assessment forms for the Non-executive Directors; and results of annual assessment on effectiveness of the Board as a whole and for each of the Non-executive Directors for the year 2011.

Risk Management Committee

The Risk Management Committee of the Company comprises three Independent Non-executive Directors, two Non-executive Directors and one Executive Director.

The major roles and functions of the Company's Risk Management Committee are as follows:

1. To oversee the overall management of all risks covering market risk management, liquidity risk management, credit risk management and operational risk management.

2. To review and approve risk management policies and risk tolerance limits.

3. To review and assess adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.

4. To review management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

5. To evaluate risks under stress test scenarios.

6. To ensure infrastructure, resources and systems are in place for risk management.

7. To ensure cultivation of a proactive risk management culture so that risk management processes are applied in the day-to-day business and activities.

The terms of reference of the Risk Management Committee are posted on the Company's website.

Board Committees (Continued)
Risk Management Committee (Continued)

The Risk Management Committee meets at least four times a year. The attendance of each member at the Risk Management Committee meetings held in 2012 is set out as follows:

Name of member	Number of meetings attended in 2012	Attendance rate
Tan Sri Datuk Seri Utama Thong Yaw Hong, *Chairman*	4/4	100%
Tan Yoke Kong	4/4	100%
Tan Sri Dato' Sri Tay Ah Lek	4/4	100%
Dato' Chang Kat Kiam	4/4	100%
Lee Chin Guan	4/4	100%
Quah Poh Keat	4/4	100%

During the year, the interest rate risk, liquidity risk, market risk, credit risk, credit concentration risk of loan portfolio, reputation risk, operational risk and other relevant risk related issues and controls were discussed and assessed with commentary and recommendations.

Accountability and Audit
Financial Reporting

The Board is committed to providing a balanced, clear and comprehensible assessment of the financial performance and prospects of the Group in all the disclosures made to the stakeholders and the regulatory authorities.

Timely release of interim and annual results announcements reflects the Board's commitment to provide transparent and up-to-date disclosures of the performance of the Group.

The Board, assisted by the Audit Committee, oversees the financial reporting process and the quality of the financial reporting of the Group. The Audit Committee reviews and monitors the integrity of the Group's annual and interim financial statements. It also reviews the appropriateness of the Group's accounting policies and the changes to these policies as well as ensures these financial statements comply with accounting standards and regulatory requirements.

The directors acknowledge their responsibilities for preparing the accounts of the Company. As at 31 December 2012, the directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going-concern basis.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditors' Report attached to the Company's 2012 annual report.

Auditors' Remuneration

During the year under review, the remuneration paid/payable to the Company's auditors, Messrs. Ernst & Young, is set out as follows:

Services rendered	Fees paid/ payable HK$'000
Audit services	3,474
Non-audit services*	324
Total:	3,798

* The non-audit service fees paid/payable to the external auditors were for advice on accounting and taxation matters and for preparation, review and submission of tax returns. The provision of these services by external auditors to the Company and the Group were cost effective and efficient due to their knowledge and understanding of the operations of the Company and the Group.

Internal Control

The Board has overall responsibility for maintaining a system of internal controls that provides reasonable assurance of effective and efficient operations and compliance with the applicable laws and regulations, as well as the internal procedures and guidelines. However, such a system is designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Group. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

Corporate Governance Report

Accountability and Audit (Continued)

Internal Control (Continued)

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the system of internal controls when there are changes to business environment or regulatory guidelines. The effectiveness of the system of internal controls of the Group is reviewed by the Audit Committee during its meetings. This review covers the financial, operational and compliance controls as well as the process for the identification, evaluation and management of the significant risks faced by the Company and the Group. Internal Audit Department checks for compliance with policies and standards and the effectiveness of internal control structures across the Company and the Group. The Board also reviews annually the effectiveness of the system of internal control of the Group and the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget.

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report is sound and is sufficient to safeguard the interests of shareholders, customers and employees, and the Group's assets. The resources, qualifications and experience of staff of the Group's accounting and financial functions, and their training programmes and budget are adequate.

Audit Committee

In addition to the duties and responsibilities set out under its terms of reference, the Audit Committee assists the Board by providing an objective non-executive review of the effectiveness and efficiency of the internal control, risk management and governance processes of the Group.

The Heads of Internal Audit Departments from Public Bank (Hong Kong) and Public Finance attend Audit Committee meetings by invitation.

The minutes of the Audit Committee meetings are tabled to the Board for noting and for action by the Board where appropriate.

The activities carried out by the Audit Committee during the year are set out in this Corporate Governance Report on page 20 of this annual report.

Other Committees Established in the Group

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and involving in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls in the Group include the following:

- Board Executive Committees under Public Bank (Hong Kong) and Public Finance consist of Executive Directors and Non-executive Directors and are responsible for the management of the businesses of Public Bank (Hong Kong) and Public Finance in all aspects and the implementation of strategic business plans and policies approved and formulated by the respective Boards.

- Management Committees are established by the respective Boards of Public Bank (Hong Kong) and Public Finance to ensure the effectiveness of the Group's daily operations and that the Group's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

- Internal Audit Departments of Public Bank (Hong Kong) and Public Finance monitor compliance with policies and procedures and the effectiveness of the internal control systems, and highlight significant findings in respect of any non-compliance. Audits are carried out on all branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on the operational and management activities of these branches. The annual audit plans are reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review.

Accountability and Audit (Continued)
Other Committees Established in the Group (Continued)

- Credit Committees under Public Bank (Hong Kong) and Public Finance are responsible for making decision on loan applications for all types of loan facilities within their discretionary powers, assisting the respective Boards in formulating policy guidelines for banking businesses of Public Bank (Hong Kong) and Public Finance, and recommending applications for loan facilities exceeding the discretionary powers of the Credit Committees to the respective Boards for approval.

- Credit Risk Management Committee under Public Bank (Hong Kong) reviews and assesses independently the credit risk profile and quality of assets, conducts stress-testing on major risks and post-mortem analysis on impaired assets, sets credit concentration risk limits of Public Bank (Hong Kong), provides advice to Public Finance and other Group companies, and implements credit risk management policies approved by the Board of Public Bank (Hong Kong).

- Assets and Liabilities Management Committees under Public Bank (Hong Kong) and Public Finance review and assess the market risk, liquidity risk and interest rate risk of Public Bank (Hong Kong) and Public Finance, set the objectives for the asset and liability management function and implement the risk management policies approved by the respective Boards of Public Bank (Hong Kong) and Public Finance.

- Operational Risk Management Committees under Public Bank (Hong Kong) and Public Finance review and assess operational risk profile, impact of operational loss events and set operational risk limits, if applicable, of Public Bank (Hong Kong) and Public Finance, and implement operational risk management policies approved by the respective Boards of Public Bank (Hong Kong) and Public Finance.

- Operational committees have also been established under Public Bank (Hong Kong) and Public Finance with appropriate authorities to ensure effective management and supervision of the Group's core areas of business operations. These committees include Human Resources Committees and Information Technology Committees.

  Human Resources Committees under Public Bank (Hong Kong) and Public Finance assist the respective Boards in formulating and implementing human resources policies including staff recruitment, promotion, career development, performance appraisal and remuneration of all staff.

  Information Technology (I.T.) Steering Committee under Public Bank (Hong Kong) and Information Technology Committee under Public Finance are responsible for establishing objectives, policies and strategies for the computerisation of the Group, recommending to the respective Boards on major acquisitions of computer hardware and software, and monitoring the progress of implementation of all information technology related projects.

- Finance Committees under Public Bank (Hong Kong) and Public Finance assist the respective Boards in the financial planning, capital management and budgeting process of the business of Public Bank (Hong Kong) and Public Finance and the review of the business performance, statutory and half year accounts.

- Anti-money Laundering and Counter-terrorist Financing (AML) and Compliance Committee and Compliance Department of Public Bank (Hong Kong), and Anti-money Laundering Committee, Compliance Working Group and Compliance Department of Public Finance are established: to ensure the guidelines on prevention of money laundering are reviewed, updated and implemented; to handle all suspected money laundering cases as referred; to review the relevant policies and guidelines issued from time to time by the HKMA and other regulatory authorities; to assess the impact of the relevant regulatory requirements on Public Bank (Hong Kong) and Public Finance; and to ensure that the relevant business units and/or departments comply with the relevant regulatory requirements and internal policy guidelines of business units and departments.

Corporate Governance Report

Accountability and Audit (Continued)

Other Committees Established in the Group (Continued)

- Remuneration Committees of Public Bank (Hong Kong) and Public Finance are established to review and make recommendations to the Board the overall remuneration policy of the directors, Chief Executive and key personnel and to establish a formal and transparent procedure for developing policy on such remuneration of Public Bank (Hong Kong) and Public Finance and their subsidiaries; and to review and make recommendations to the Board the remuneration policies applicable to the employees.

- Business Strategy Steering Committees under Public Bank (Hong Kong) and Public Finance are responsible to establish effective business strategies to meet corporate goals and objectives; and to formulate strategic business plans to achieve growth and return, and competitive edge in the financial industry.

Communications with Shareholders and Investors

The Board recognises the importance of good communications with its shareholders and investors. A shareholders' communication policy setting out the principles of the Company in relation to shareholders' communications, with the objectives of ensuring a transparent and timely communication with shareholders via various means, has been established.

The Company's AGM is a valuable forum for the Board to communicate directly with the shareholders and to answer questions shareholders may raise. Separate resolutions are proposed at general meetings for each substantial issue, including the re-election and election of individual directors. The detailed procedures of conducting a poll are explained to shareholders at the commencement of the AGM, to ensure that shareholders are familiar with such procedures.

The Company's last AGM was held on Wednesday, 14 March 2012 at 10:00 a.m. at Kowloon Room, Kowloon Shangri-La, Hong Kong, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong. All the resolutions proposed at that meeting were approved by shareholders of the Company by poll. Details of the poll results are available under the "Investor Relations" section of the Company's website at www.publicfinancial.com.hk. All directors, except Tan Sri Dato' Sri Dr. Teh Hong Piow, attended the AGM held on 14 March 2012.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its annual and interim results in a timely manner within 20 days after the end of the relevant periods in 2011 and 2012, which were well before the time limits as laid down in the Listing Rules.

The management personnel responsible for investor relations held regular meetings with equity research analysts, fund managers and institutional shareholders and investors.

The market capitalisation of the Company as at 31 December 2012 was HK$4,018,378,482 (issued share capital: 1,097,917,618 shares at closing market price: HK$3.66 per share). The public float is around 26.8%.

The 2013 AGM will be held at Kowloon Room, Kowloon Shangri-La, Hong Kong, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Friday, 15 March 2013 at 11:00 a.m.

Constitutional Documents

There was no change to the Company's Memorandum of Association and Bye-laws during the financial year 2012. A copy of the latest consolidated version of the Memorandum of Association and Bye-laws is posted on the websites of the Company and the Stock Exchange.

Shareholders' Rights

Convening of Special General Meetings on Requisition by Shareholders

Shareholders shall have the right to request the Board to convene a special general meeting ("SGM") of the Company. Shareholders holding in aggregate of not less than one-tenth (10%) of the paid up capital of the Company may send a written request to the Board of the Company to request for a SGM.

Shareholders' Rights (Continued)

Convening of Special General Meetings on Requisition by Shareholders (Continued)

The written requisition, duly signed by the shareholders concerned, must state the purposes of the meeting and must be deposited at the registered office of the Company.

The Company would take appropriate actions and make necessary arrangements, and the shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Section 74 of the Companies Act 1981 of Bermuda (the "Companies Act") once a valid requisition is received.

Procedures for Making Proposals at General Meetings by Shareholders

The following shareholders are entitled to put forward a proposal (which may properly be put to the meeting) for consideration at a general meeting of the Company:

(a) any number of members representing not less than one-twentieth (5%) of the total voting rights of the Company on the date of the requisition; or

(b) not less than 100 members holding shares in the Company.

The requisition specifying the proposal, duly signed by the shareholders concerned, together with a statement of not more than 1,000 words with respect to the matter referred to in the proposal must be deposited at the registered office of the Company. The Company would take appropriate actions and make necessary arrangements, and the shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Sections 79 and 80 of the Companies Act once valid documents are received.

Procedures for Director's Nomination and Election by Shareholders

If a shareholder wishes to propose a person other than a retiring director for election as a director at a general meeting, the shareholder should lodge at the principal place of business of the Company at 2/F, Public Bank Centre, 120 Des Voeux Road Central, Central, Hong Kong, a written notice signed by (a) such shareholder (other than the proposed person) duly qualified to attend and vote at the meeting of his/her intention to propose such person for election and (b) the proposed person indicating his/her willingness to be elected. The said notice must include the personal information of the proposed person as required by Rule 13.51(2) of the Listing Rules and consent of publication of his/her personal data.

The period during which the aforesaid notice may be given shall be at least seven days (or such other period as determined and announced by the Board). Such period will commence on the day after the despatch of the notice of general meeting for which such notice is given and end no later than seven days prior to the date of such general meeting. The Company would take appropriate actions and make necessary arrangements, and the shareholder concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Bye-law 116 of the Company's Bye-laws once valid notice is received.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

Public Financial Holdings Limited
2/F, Public Bank Centre,
120 Des Voeux Road Central,
Central, Hong Kong
Telephone: (852) 2541 9222
Fax: (852) 2545 5665
Email: investor@publicbank.com.hk

Shareholders may also make enquiries with the Board at the general meetings of the Company.

Brief Biography of Directors

Tan Sri Dato' Sri Dr. Teh Hong Piow

Tan Sri Dato' Sri Dr. Teh Hong Piow, aged 82, is the Founder and Chairman and a substantial shareholder of Public Bank Berhad ("Public Bank"), a commercial bank listed on the Malaysian stock exchange, and the holding company of the Company. He has 63 years of experience in the banking and finance industry. He was appointed a Non-executive Director and the Chairman of the Company in September 1991. He is also the Chairman of Public Bank (Hong Kong) and Public Finance. He also holds directorships in several other companies in the Public Bank Group and is the Chairman of LPI Capital Berhad which is a public listed company in Malaysia.

In recognition of his contributions to society and the economy, he was conferred the Doctor of Laws (Honorary) from University of Malaya in 1989.

Tan Sri Dato' Sri Dr. Teh Hong Piow had served in various capacities in public service bodies in Malaysia; he was a member of the Malaysian Business Council from 1991 to 1993; a member of the National Trust Fund from 1988 to 2001; a founder member of the Advisory Business Council since 2003; and is a member of the IPRM Accreditation Privy Council of Malaysia. He is an Emeritus Fellow of the Malaysian Institute of Management and is a Fellow of the Institute of Bankers Malaysia; the Chartered Institute of Bankers, United Kingdom; the Institute of Administrative Management, United Kingdom and the Institute of Chartered Secretaries and Administrators, Australia.

Tan Sri Datuk Seri Utama Thong Yaw Hong

Tan Sri Datuk Seri Utama Thong Yaw Hong, aged 82, was appointed an Independent Non-executive Co-Chairman of the Company in July 2006 and is the Chairman of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. He is the Independent Non-executive Co-Chairman of Public Bank, Public Bank (Hong Kong) and Public Finance. He also holds directorships in several other companies in the Public Bank Group.

Tan Sri Datuk Seri Utama Thong Yaw Hong's directorships in other public listed companies are in LPI Capital Berhad (Co-Chairman), Batu Kawan Berhad (director) and Kuala Lumpur Kepong Berhad (director) which are listed in Malaysia. His previous directorship in public listed companies over the last 3 years was in Berjaya Sports Toto Berhad (resigned on 30 April 2012). He is also a director of Glenealy Plantations (Malaya) Berhad, a public company in Malaysia which withdrew the listing status on 27 November 2012.

He graduated with a Bachelor of Arts (Hons) degree in Economics from University of Malaya and a Master's degree in Public Administration from Harvard University. He attended the Advanced Management Program at Harvard Business School. In September 2006, he was conferred the Doctor of Economics (Honorary) from University Putra Malaysia.

Tan Sri Datuk Seri Utama Thong Yaw Hong has had a distinguished career with the Government of Malaysia, primarily in the fields of socio-economic development planning and finance. He had served in the Economic Planning Unit in the Prime Minister's Department since 1957 and became its Director-General from 1971 to 1978 and served as Secretary-General, Ministry of Finance from 1979 until his retirement in 1986.

Mr. Tan Yoke Kong

Mr. Tan Yoke Kong, aged 60, has more than 31 years of experience in the banking and finance industry. He was appointed an Executive Director of the Company in February 1992 and is the Chief Executive/Executive Director of Public Bank (Hong Kong). He is a member of the Risk Management Committee of the Company. Prior to his transfer to the current appointment in Public Bank (Hong Kong) in year 2006, Mr. Tan was the Chief Executive of Public Finance, and had served as the Vice Chairman of The DTC Association and as a member of The Deposit-taking Companies Advisory Committee for several years. Mr. Tan is a Fellow of the Association of Chartered Certified Accountants, United Kingdom and an Associate of the Institute of Chartered Secretaries and Administrators, United Kingdom.

Mr. Chong Yam Kiang

Mr. Chong Yam Kiang, aged 62, has 43 years of experience in the banking and finance industry. He was appointed a Non-executive Director of the Company in January 2009 and is an Executive Director of Public Bank (Hong Kong) and a Non-executive Director of Public Finance. He is currently an Alternate Chief Executive of Public Bank (Hong Kong).

Mr. Lee Huat Oon

Mr. Lee Huat Oon, aged 50, has 25 years of experience in the banking and finance industry. He was appointed an Executive Director of the Company in June 1996 and is currently the General Manager/Chief Executive and Executive Director of Public Finance. He holds a degree in Accounting from the University of Malaya and is a Chartered Accountant of the Malaysian Institute of Accountants.

Mr. Lee is currently the Acting Chairman of The DTC Association, a member of The Deposit-taking Companies Advisory Committee, a member of the Banking and Finance Industry Training Board in Hong Kong and a director of The Hong Kong Mortgage Corporation Limited.

Tan Sri Dato' Sri Tay Ah Lek

Tan Sri Dato' Sri Tay Ah Lek, aged 70, has 52 years of experience in the banking and finance industry. He was appointed a Non-executive Director of the Company in January 1995 and is a member of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. He is the Managing Director/Chief Executive Officer of Public Bank and a Non-executive Director of Public Bank (Hong Kong) and Public Finance. He also holds directorships in several other companies in the Public Bank Group.

Tan Sri Dato' Sri Tay Ah Lek holds a Master's degree in Business Administration from Henley, United Kingdom and attended the Advanced Management Program at Harvard Business School. He is an Emeritus Fellow of the Malaysian Institute of Management and is a Fellow of CPA Australia, the Financial Services Institute of Australasia and the Institute of Bankers Malaysia.

He is presently the Chairman of the Association of Hire Purchase Companies Malaysia and a member of the National Payments Advisory Board in Malaysia.

Dato' Chang Kat Kiam

Dato' Chang Kat Kiam, aged 58, has 38 years of experience in the banking and finance industry. He was appointed a Non-executive Director of the Company in March 2004. He is also a Non-executive Director of Public Bank (Hong Kong) and Public Finance and a member of the Risk Management Committee of the Company. He is currently a Chief Operating Officer of Public Bank. He also holds directorships in several other companies in the Public Bank Group. He holds a Master's degree in Business Administration.

Mr. Lee Chin Guan

Mr. Lee Chin Guan, aged 54, has 20 years of experience in the legal practice, principally in commercial and corporate matters. He was appointed an Independent Non-executive Director of the Company in September 2004 and is a member of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. He is also an Independent Non-executive Director of Public Bank (Hong Kong) and Public Finance. He qualified as a Barrister-at-Law from the Middle Temple, United Kingdom in 1982. He also holds a Bachelor Degree in Science (Hons) from the University of Manchester Institute of Science and Technology, England and Degrees in Law from Cambridge University, Oxford University and Chicago-Kent College of Law.

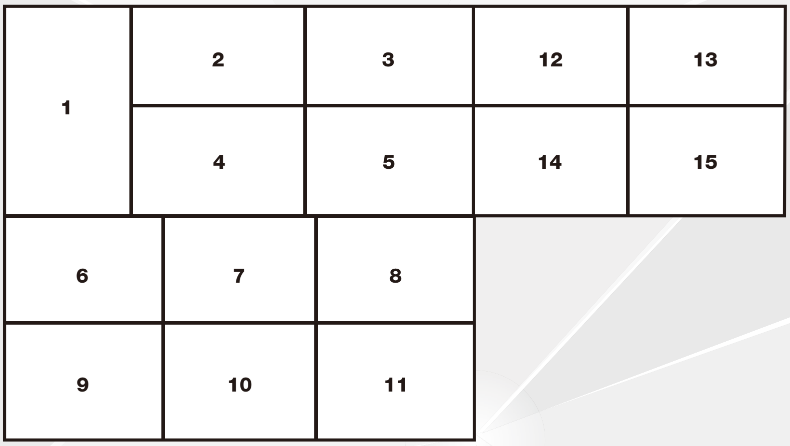
Mr. Quah Poh Keat

Mr. Quah Poh Keat, aged 60, has 35 years of experience in auditing, tax and insolvency practices and had worked in Malaysia and United Kingdom. He was appointed a Non-executive Director of the Company in July 2008 and was re-designated as an Independent Non-executive Director on 13 January 2009. He is currently a member of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. He is also an Independent Non-executive Director of Public Bank, Public Bank (Hong Kong) and Public Finance. He also holds directorships in several other companies in the Public Bank Group.

Mr. Quah is also an Independent Non-executive Director of LPI Capital Berhad, IOI Corporation Berhad and Telekom Malaysia Berhad, which are public listed companies in Malaysia. His previous directorship in public listed company over the last 3 years was in PLUS Expressways Berhad (resigned on 23 December 2011).

Mr. Quah is a Fellow of the Malaysian Institute of Taxation and the Association of Chartered Certified Accountants. He is also a member of the Malaysian Institute of Accountants, the Malaysian Institute of Certified Public Accountants and the Chartered Institute of Management Accountants. He was a partner of KPMG Malaysia since October 1982 and appointed Senior Partner (also known as Managing Partner in other practices) in October 2000 until 30 September 2007. He retired from the firm on 31 December 2007.

Our Corporate Family
Corporate Events & Recreational Activities



1 Mr. Tan delivering his key-note address at the Group's Annual Dinner 2012

2 The Company's Annual General Meeting 2012 held at the Kowloon Shangri-La, Hong Kong on 14 March 2012

3 Choir members singing the Public Bank Corporate Song with passion at the Group's Annual Dinner

4 Flag dancers waving the flags rhythmically at the Group's Annual Dinner 2012

5 Cheers! Senior management toasting for a profitable year at the Group's Annual Dinner 2012

6 Participants all rising for the Public Bank Corporate Song at the Public Bank (Hong Kong) Business Forum 2012

7 Public Bank (Hong Kong) Business Forum 2012 held at Kowloonbay International Trade & Exhibition Centre on 14 April 2012

8 A group photo for the album of the participants of Public Bank (Hong Kong) training programme – the Amazing Race Challenge 2012

9 An inspirational energetic dance at the Group's Annual Dinner 2012

10 Certificates of Attendance awarded to participants at the Public Bank (Hong Kong) Workshop Presentation on "Managing Today's Business, Building Tomorrow's Capabilities" jointly conducted with The Hong Kong Institute of Bankers

11 Roast-pork cutting ceremony for the relocation of Public Bank (Hong Kong) Tai Po Branch

12 An outing on the river cruise at the ING-PB(HK)/Public Bank (Hong Kong) Sales Convention 2012 in Bangkok

13 An amazing "stunt" staff performance at the Group's Annual Dinner 2012

14 Cheers to "PB Team" emerged as the champion of the ICBC Football League Championship 2012

15 Staff receiving the "Cooking Certificates" upon successful completion of cooking class in Bangkok during the ING-PB(HK)/Public Bank (Hong Kong) Sales Convention 2012

Our Corporate Family
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Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2012.

Principal Activities

The Company is an investment and property holding company. The principal activities of its subsidiaries during the year were the provision of retail and commercial banking and lending services, stockbroking, the letting of investment properties, the provision of financing to purchasers of taxis and public light buses, the trading of taxi cabs and taxi licences and the leasing of taxis.

Details of the principal activities of the Company's subsidiaries are set out in note 26 to the financial statements.

Results and Dividends

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 42 to 129.

The first interim dividend of HK$0.05 (2011: HK$0.05) per ordinary share was paid on 30 July 2012. The second interim dividend of HK$0.09 (2011: HK$0.11) per ordinary share was declared on 27 December 2012 and will be payable on 21 February 2013 to shareholders of the Company whose names appear on the register of members on 30 January 2013. The directors do not recommend the payment of a final dividend for the year (2011: Nil).

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 9.

Investment Properties, Property and Equipment and Land Held Under Finance Leases

Details of movements in the investment properties, property and equipment and land held under finance leases of the Company and of the Group are set out in notes 23, 24, and 25 to the financial statements, respectively.

Share Capital and Share Options

Details of movements of the Company's share capital and share options are set out in notes 36 and 37 to the financial statements, respectively.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Sale or Redemption of Listed Shares of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 39 to the financial statements and the consolidated statement of changes in equity.

Distributable Reserves

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act. At 31 December 2012, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK$1,850,821,000 (inclusive of the Company's contributed surplus) are set out in note 39 to the financial statements as computed in accordance with generally accepted accounting principles of Hong Kong Special Administrative Region. In addition, the Company's share premium account in the amount of approximately HK$4,013,344,000 may be distributed in the form of fully paid bonus shares.

Major Customers

During the year, the five largest customers of the Group accounted for less than 30% of the total interest income and other operating income of the Group.

Directors

The directors of the Company during the year and up to the date of this report were as follows:

Non-executive Directors:
Tan Sri Dato' Sri Dr. Teh Hong Piow, *Chairman*
Tan Sri Dato' Sri Tay Ah Lek
Dato' Chang Kat Kiam
Chong Yam Kiang

Independent Non-executive Directors:
Tan Sri Datuk Seri Utama Thong Yaw Hong, *Co-Chairman*
Lee Chin Guan
Quah Poh Keat

Executive Directors:
Tan Yoke Kong
Lee Huat Oon

In accordance with the Bye-laws, Tan Sri Datuk Seri Utama Thong Yaw Hong, Mr. Tan Yoke Kong and Mr. Lee Huat Oon shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' Remuneration and the Five Highest Paid Individuals

Details of directors' remuneration and those of the five highest paid individuals in the Group are set out in notes 12 and 13 to the financial statements, respectively.

Directors' Service Contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

Report of the Directors

Directors' Interests in Contracts

Except as detailed in note 42 to the financial statements, no director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Company to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party at the end of the year or at any time during the year.

Loan Agreement with Covenants Relating to Specific Performance of the Controlling Shareholder

(a) In August 2010, the Company entered into a facility agreement (the "Facility Agreement") with a total of eight banks as the original lenders, Mizuho Corporate Bank, Ltd. as mandated lead arranger and Mizuho Corporate Bank, Ltd., Hong Kong Branch as the agent (the "Agent") for a transferable term loan facility in an aggregate amount of up to HK$870,000,000 (the "Facility") to refinance the Company's indebtedness under the facility agreement dated 27 May 2009 relating to a HK$1,500,000,000 term loan facility and finance the general corporate funding requirements. The final maturity date of the Facility shall be 48 months after the date of utilisation of the Facility.

The Facility Agreement provides, among other things, that it is an event of default if Public Bank, the controlling shareholder (currently holding approximately 73.2% interest) of the Company, does not or ceases to beneficially own, directly or indirectly, more than 50% of the issued share capital of, and ownership interests in, the Company free from any security, or Public Bank does not or ceases to exercise management control over the Company.

If an event of default occurs, the Agent may, and shall if so directed, by the Majority Lenders (as defined in the Facility Agreement), demand immediate repayment of all or part of the loans made to the Company together with accrued interest.

(b) In October 2012, Public Bank (Hong Kong), as the borrower, entered into a second amendment agreement (the "Second Amendment Agreement") to the facility agreement dated 20 August 2010, as amended by an amendment agreement dated 29 August 2011 (collectively the "SCBHK Facility Agreement") in respect of a multi currency term loan facility in an aggregate amount of up to HK$800,000,000 (the "Term Loan Facility") with Standard Chartered Bank (Hong Kong) Limited ("SCBHK"), as the lender. The Term Loan Facility was available for drawing for 30 days from the date of acceptance of the offer letter. The repayment date of the Term Loan Facility shall be one year from the date of drawdown of the Term Loan Facility.

The Second Amendment Agreement provides, among other things, that it is an event of default if Public Bank fails to maintain at least 51% direct or indirect interest in the issued share capital of Public Bank (Hong Kong).

If an event of default occurs, SCBHK may (i) cancel the Term Loan Facility immediately; (ii) declare that all or part of the loans, together with accrued interest, and all other amounts accrued or outstanding under the Finance Documents (as defined in the SCBHK Facility Agreement) be immediately due and payable; and/or (iii) declare that all or part of the loans be payable on demand.

For items (a) and (b), the circumstances giving rise to the obligation under Rule 13.18 of the Listing Rules continue to exist.

The aggregate level of facilities (excluding facilities arranged solely for the purpose of contingency funding plan) entered into with the Company and its subsidiaries which may be affected by such breach and required to be disclosed under Rule 13.18 of the Listing Rules amounts to HK$2.3 billion.

Directors' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2012, the directors' interests and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules were as follows:

(a) Long positions in ordinary shares of the Company and associated corporations

		Number of ordinary shares					
Interests in	Name of director	Directly beneficially owned	Through spouse or minor children	Through controlled corporations	Other interests	Total	Percentage of interests in the issued share capital %
1. The Company	Tan Sri Dato' Sri Dr. Teh Hong Piow	–	–	804,017,920	–	804,017,920	73.2312
	Tan Yoke Kong	210,000	–	–	*330,000	540,000	0.0492
	Chong Yam Kiang	20,000	–	–	–	20,000	0.0018
	Lee Huat Oon	20,000	–	–	–	20,000	0.0018
	Tan Sri Dato' Sri Tay Ah Lek	350,000	–	–	–	350,000	0.0319
	Dato' Chang Kat Kiam	300,000	–	–	–	300,000	0.0273
2. Public Bank, the ultimate holding company	Tan Sri Dato' Sri Dr. Teh Hong Piow	22,464,802	–	820,835,261	–	843,300,063	23.8765
	Tan Sri Datuk Seri Utama Thong Yaw Hong	7,633,342	365,294	326,154	–	8,324,790	0.2357
	Tan Yoke Kong	40,588	–	–	–	40,588	0.0011
	Chong Yam Kiang	17,128	–	–	–	17,128	0.0005
	Lee Huat Oon	57,402	–	–	–	57,402	0.0016
	Tan Sri Dato' Sri Tay Ah Lek	5,898,951	208,739	145,576	–	6,253,266	0.1770
	Dato' Chang Kat Kiam	114,215	–	–	–	114,215	0.0032
	Lee Chin Guan	200,028	–	–	–	200,028	0.0057
3. Campu Lonpac Insurance Plc, a fellow subsidiary	Tan Sri Dato' Sri Dr. Teh Hong Piow	–	–	3,850,000	–	3,850,000	55.0000

* Jointly held with another person

Report of the Directors

Directors' Interests and Short Positions in Shares and Underlying Shares (Continued)

(a) Long positions in ordinary shares of the Company and associated corporations (Continued)

Tan Sri Dato' Sri Dr. Teh Hong Piow, by virtue of his direct and indirect interest of 843,300,063 shares in Public Bank, is deemed to be interested in the shares of the Company and its associated corporations as disclosed above, to the extent Public Bank has interests.

(b) Long positions in underlying shares of the Company

	Number of ordinary shares attached to the share options					
Name of director	**At the beginning of the year**	**Granted during the year**	**Exercised during the year**	**At the end of the year**	**Exercise price HK$**	**Exercise period**
Tan Yoke Kong	1,318,000	–	–	1,318,000	6.35	10.6.2005 to 9.6.2015
Lee Huat Oon	3,170,000	–	–	3,170,000	6.35	10.6.2005 to 9.6.2015
Tan Sri Dato' Sri Tay Ah Lek	1,230,000	–	–	1,230,000	6.35	10.6.2005 to 9.6.2015
Dato' Chang Kat Kiam	1,380,000	–	–	1,380,000	6.35	10.6.2005 to 9.6.2015
Lee Chin Guan	350,000	–	–	350,000	6.35	10.6.2005 to 9.6.2015

Note: The options to subscribe for ordinary shares of HK$0.10 each in the Company under the employees' share option scheme of the Company are only exercisable during certain periods as notified by the Board or the Share Option Committee to each grantee which it may in its absolute discretion determine from time to time before the expiry of the share options on 9 June 2015.

Save as disclosed above, none of the directors had registered an interest or a short position in the shares, or underlying shares of the Company or any of its associated corporations that was required to be recorded under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code at the end of the year.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the heading "Directors' interests and short positions in shares and underlying shares" above and set out in note 37 to the financial statements, at no time during the year was the Company, its holding company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2012, the register of interests and short positions in the shares and underlying shares of the Company kept under Section 336 of the SFO showed that, other than the interests of Tan Sri Dato' Sri Dr. Teh Hong Piow as disclosed above, the following shareholders had interests of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of ordinary shares	Percentage of interests in the issued share capital %
Substantial shareholder			
1. Public Bank	Beneficial owner	804,017,920	73.2312
Other person			
2. Aberdeen Asset Management Plc and its subsidiaries (together "the AA Group") on behalf of accounts managed by the AA Group	Investment manager	99,474,000	9.0602

All the interests stated above represent long positions. Save as disclosed above and under the heading "Directors' interests and short positions in shares and underlying shares", no person had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded under Section 336 of the SFO at the end of the year.

Corporate Governance

The Group is committed to maintaining a high level of corporate governance practices. A detailed Corporate Governance Report is set out on pages 16 to 27 in the annual report.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirmed that the Company has maintained the amount of public float as required under the Listing Rules as at the latest practicable date prior to the issue of the annual report.

Report of the Directors

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
Tan Yoke Kong
Director

Hong Kong
18 January 2013

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of Public Financial Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Public Financial Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 42 to 129, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
18 January 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Notes	**2012 HK$'000**	2011 HK$'000 (Restated)
Interest income	8	**1,642,874**	1,589,621
Interest expense	8	**(404,986)**	(377,220)
NET INTEREST INCOME		**1,237,888**	1,212,401
Other operating income	9	**218,132**	276,759
OPERATING INCOME		**1,456,020**	1,489,160
Operating expenses	10	**(744,098)**	(734,176)
Changes in fair value of investment properties		**59,993**	6,644
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**771,915**	761,628
Impairment allowance written back in relation to the Lehman Brothers Minibonds repurchased		**–**	34,157
		771,915	795,785
Impairment allowances for loans and advances and receivables	11	**(316,136)**	(327,574)
PROFIT BEFORE TAX		**455,779**	468,211
Tax	14	**(74,208)**	(92,246)
PROFIT FOR THE YEAR		**381,571**	375,965
ATTRIBUTABLE TO:			
Owners of the Company	15	**381,571**	375,965
EARNINGS PER SHARE (HK$)	17		
Basic		**0.348**	0.342
Diluted		**0.348**	0.342

Details of dividends paid/payable are disclosed in note 16 to the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000 (Restated)
PROFIT FOR THE YEAR	**381,571**	375,965
OTHER COMPREHENSIVE INCOME FOR THE YEAR		
Exchange gain on translating foreign operations, net of tax	**5,646**	17,240
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**387,217**	393,205
ATTRIBUTABLE TO:		
Owners of the Company	**387,217**	393,205

Consolidated Statement of Financial Position

31 December 2012

		Group			Company		
	Notes	**31/12/2012 HK$'000**	31/12/2011 HK$'000 (Restated)	1/1/2011 HK$'000 (Restated)	**31/12/2012 HK$'000**	31/12/2011 HK$'000 (Restated)	1/1/2011 HK$'000 (Restated)
ASSETS							
Cash and short term placements	18	**3,951,468**	4,575,282	6,021,365	**28,177**	54,779	35,082
Placements with banks and financial institutions maturing after one month but not more than twelve months	19	**873,951**	513,527	723,715	**–**	–	–
Derivative financial instruments		**317**	3,220	10,167	**–**	–	–
Loans and advances and receivables	20	**27,169,503**	27,575,499	26,817,872	**–**	–	–
Available-for-sale financial assets	21	**6,804**	6,804	6,804	**–**	–	–
Held-to-maturity investments	22	**4,556,217**	3,421,503	2,709,776	**–**	–	–
Inventories of taxi licences		**2,676**	2,676	15,084	**–**	–	–
Investment properties	23	**245,718**	195,309	188,665	**1,633,922**	1,161,860	1,132,190
Property and equipment	24	**112,481**	111,517	119,615	**724**	564	490
Land held under finance leases	25	**659,524**	657,900	665,400	**–**	–	–
Investments in subsidiaries	26	**–**	–	–	**6,616,383**	6,622,495	6,663,710
Interest in a jointly-controlled entity	27	**1,513**	1,513	1,513	**–**	–	–
Deferred tax assets	34	**36,611**	21,610	10,810	**25**	9	19
Tax recoverable		**12,607**	15,723	901	**–**	–	–
Goodwill	29	**2,774,403**	2,774,403	2,774,403	**–**	–	–
Intangible assets	30	**718**	718	718	**–**	–	–
Other assets	28	**131,331**	90,161	262,830	**241**	512	1,329
TOTAL ASSETS		**40,535,842**	39,967,365	40,329,638	**8,279,472**	7,840,219	7,832,820
EQUITY AND LIABILITIES							
LIABILITIES							
Deposits and balances of banks and other financial institutions at amortised cost		**538,296**	1,246,092	680,382	**–**	–	–
Derivative financial instruments		**135**	2,051	5,435	**–**	–	–
Customer deposits at amortised cost	32	**29,374,122**	28,334,785	29,670,825	**–**	–	–
Certificates of deposit issued at amortised cost		**649,833**	513,315	200,000	**–**	–	–
Dividends payable	16	**98,812**	120,771	175,667	**98,812**	120,771	175,667
Unsecured bank loans at amortised cost	33	**2,960,437**	2,960,734	3,038,991	**2,150,376**	2,162,660	2,160,052
Current tax payable		**23,615**	33,832	40,907	**9**	947	12
Deferred tax liabilities	34	**24,555**	19,599	14,276	**5,164**	4,195	418
Other liabilities	35	**340,744**	444,402	428,909	**5,389**	5,252	4,968
TOTAL LIABILITIES		**34,010,549**	33,675,581	34,255,392	**2,259,750**	2,293,825	2,341,117

	Notes	**31/12/2012**	31/12/2011	1/1/2011	**31/12/2012**	31/12/2011	1/1/2011
		Group			**Company**		
		HK$'000	HK$'000 (Restated)	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	HK$'000 (Restated)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY							
Issued capital	36	**109,792**	109,792	109,792	**109,792**	109,792	109,792
Reserves	39	**6,415,501**	6,181,992	5,964,454	**5,909,930**	5,436,602	5,381,911
TOTAL EQUITY		**6,525,293**	6,291,784	6,074,246	**6,019,722**	5,546,394	5,491,703
TOTAL EQUITY AND LIABILITIES		**40,535,842**	39,967,365	40,329,638	**8,279,472**	7,840,219	7,832,820

Tan Yoke Kong
Director

Lee Huat Oon
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000 (Restated)
TOTAL EQUITY		
Balance at the beginning of the year as previously reported	**6,281,799**	6,065,357
Impact of change in accounting policy (Note 5)	**9,985**	8,889
Balance at the beginning of the year (Restated)	**6,291,784**	6,074,246
Profit for the year (Restated)	**381,571**	375,965
Other comprehensive income	**5,646**	17,240
Total comprehensive income for the year (Restated)	**387,217**	393,205
Dividends declared on shares	**(153,708)**	(175,667)
Balance at the end of the year	**6,525,293**	6,291,784

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**455,779**	468,211
Adjustments for:		
Depreciation of property and equipment and land held under finance leases	**31,246**	32,014
Net losses on disposal of property and equipment	**106**	199
Decrease in impairment allowances for loans and advances and receivables	**(44,814)**	(11,862)
Dividend income from listed investments	**(23)**	(13)
Dividend income from unlisted investments	**(1,000)**	(500)
Increase in fair value of investment properties	**(59,993)**	(6,644)
Exchange differences	**6,311**	30,209
Profits tax paid	**(91,354)**	(114,808)
Operating profit before changes in operating assets and liabilities	**296,258**	396,806
Increase in operating assets:		
(Increase)/decrease in placements with banks and financial institutions	**(212,386)**	297,825
Decrease/(increase) in loans and advances and receivables	**450,145**	(748,724)
Increase in held-to-maturity investments	**(2,890,481)**	(203,755)
(Increase)/decrease in other assets	**(41,170)**	157,847
Decrease in derivative financial instruments	**2,903**	6,947
Decrease in inventories of taxi licences	**–**	12,408
	(2,690,989)	(477,452)
Increase/(decrease) in operating liabilities:		
(Decrease)/increase in deposits and balances of banks and other financial institutions at amortised cost	**(707,796)**	565,710
Increase/(decrease) in customer deposits at amortised cost	**1,039,337**	(1,336,040)
Increase in certificates of deposit issued at amortised cost	**136,518**	313,315
Decrease in derivative financial instruments	**(1,916)**	(3,384)
(Decrease)/increase in other liabilities	**(103,658)**	15,493
	362,485	(444,906)
Net cash outflow from operating activities	**(2,032,246)**	(525,552)

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		**(2,032,246)**	(525,552)
CASH FLOWS FROM INVESTING ACTIVITIES			
Exchange differences		**10**	53
Purchases of property and equipment		**(24,399)**	(16,668)
Sales proceeds from disposal of properties and equipment		**33**	–
Dividends received from listed investments		**23**	13
Dividends received from unlisted investments		**1,000**	500
Net cash outflow from investing activities		**(23,333)**	(16,102)
CASH FLOWS FROM FINANCING ACTIVITIES			
New unsecured bank loans		**848,000**	–
Repayment of unsecured bank loans		**(848,297)**	(78,257)
Dividends paid on shares		**(175,667)**	(230,563)
Net cash outflow from financing activities		**(175,964)**	(308,820)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(2,231,543)**	(850,474)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**7,692,870**	8,543,344
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**5,461,327**	7,692,870
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand	44	**708,553**	1,030,256
Money at call and short notice with an original maturity within three months		**3,242,915**	3,545,026
Placements with banks and financial institutions with an original maturity within three months		**394,544**	246,506
Held-to-maturity investments with an original maturity within three months		**1,115,315**	2,871,082
		5,461,327	7,692,870

Notes to Financial Statements

1. Corporate Information

The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM 11, Bermuda.

The Company is a limited liability company and its shares are listed on the Stock Exchange (stock code: 626).

During the year, the Group's principal activities were the provision of banking, financial and related services, stockbroking, the letting of investment properties, the provision of financing to purchasers of taxis and public light buses, the trading of taxi cabs and taxi licences, and the leasing of taxis.

Details of the principal activities of the Company's subsidiaries are set out in note 26 to the financial statements.

In the opinion of the directors, the ultimate holding company of the Company is Public Bank, which is incorporated in Malaysia.

2. Basis of Preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (a collective term which includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int")) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Listing Rules and make reference to the Guideline on the Application of the Banking (Disclosure) Rules.

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

3. Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries and a jointly-controlled entity are prepared for the same reporting period as the Group, using consistent accounting policies.

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

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

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

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

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

Notes to Financial Statements

3. Basis of Consolidation (Continued)

The subsidiaries consolidated for accounting purposes are Public Bank (Hong Kong), Public Finance, Winton (B.V.I.) Limited and their subsidiaries and a jointly-controlled entity set out in notes 26 and 27 to the financial statements.

4. Basis of Capital Disclosures

The Group has complied with the capital requirements during the reporting period related to capital base and the capital adequacy ratio as stipulated by the Hong Kong Monetary Authority ("HKMA"), and has also followed the Guideline on the Application of the Banking (Disclosure) Rules issued by the HKMA.

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

The computation of the consolidated capital adequacy ratio of the Group is based on the ratio of the aggregate of risk weighted exposures to the aggregate of capital bases of the Company, Public Bank (Hong Kong) and Public Finance for regulatory purposes.

There are no major restrictions or impediments on the transfer of capital or funds among the members of the Company's consolidation group except that liquidity, capital and other performance indicators of Public Securities Limited and Public Financial Securities Limited should satisfy the minimum requirements of the Securities and Futures (Financial Resources) Rules issued by the Securities and Futures Commission of Hong Kong. A portion of retained profits, based on a percentage of gross loans and advances, is set aside for a non-distributable regulatory reserve as part of supplementary capital included in capital base pursuant to the HKMA capital requirements.

5. Accounting Policies

Changes in accounting policies and disclosures

The HKICPA has issued a number of new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2012. The Group has adopted the following new and revised HKFRSs issued up to 31 December 2012 which are pertinent to its operations and relevant to these financial statements.

- HKFRS 1 Amendments — Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- HKFRS 7 Amendments — Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
- HKAS 12 Amendments — Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The principal effects of adopting these new and revised HKFRSs are as follows:

HKFRS 1 Amendments introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation, whereby these entities can elect fair value as the deemed cost for assets and liabilities affected by severe hyperinflation in their first HKFRS financial statements. The amendments also remove the legacy fixed dates in HKFRS 1 relating to derecognition and day one gain or loss transactions. As the Group is not a first time adopter of HKFRSs, the amendments have no financial impact on the Group.

HKFRS 7 Amendments introduce more extensive quantitative and qualitative disclosure requirements regarding transfer transactions of financial assets (e.g., securitisations), including information for understanding the possible effects of any risks that may remain with the entity that transfers the assets. As the Group does not have continuing involvement in the derecognised assets, the amendments have no financial impact on the Group.

5. Accounting Policies (Continued)

Changes in accounting policies and disclosures (Continued)

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in Hong Kong (Standing Interpretations Committee) Interpretation ("HK(SIC)-Int") 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The effect of the above changes is summarised below:

Previously, the Group and the Company measured deferred tax on the fair value gains from its investment properties assuming that the carrying amount of these properties would be recovered through use. The change in accounting policy has been applied retrospectively. It reduced the deferred tax liability and increased the retained earnings of the Group by HK$8.9 million and by HK$10.0 million as at 1 January 2011 and as at 31 December 2011 respectively. It reduced the deferred tax liability and increased the retained earnings of the Company by HK$27.7 million and by HK$32.6 million as at 1 January 2011 and as at 31 December 2011 respectively.

The effect on the consolidated statement of comprehensive income was that it reduced the tax expense and increased profit for the current year by HK$9.9 million (2011: HK$1.1 million). In addition, the basic and diluted earnings per share for the current year increased by HK$0.009 (2011: HK$0.001).

Impact of issued but not yet effective HKFRSs

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

• HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
• HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
• HKFRS 9	*Financial Instruments*[4]
• HKFRS 10	*Consolidated Financial Statements*[2]
• HKFRS 11	*Joint Arrangements*[2]
• HKFRS 12	*Disclosure of Interests in Other Entities*[2]
• HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
• HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
• HKFRS 13	*Fair Value Measurement*[2]
• HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
• HKAS 19 (2011)	*Employee Benefits*[2]
• HKAS 27 (2011)	*Separate Financial Statements*[2]
• HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
• HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
• HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
• Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

1 effective for annual periods beginning on or after 1 July 2012
2 effective for annual periods beginning on or after 1 January 2013
3 effective for annual periods beginning on or after 1 January 2014
4 effective for annual periods beginning on or after 1 January 2015

Notes to Financial Statements

5. Accounting Policies (Continued)

Impact of issued but not yet effective HKFRSs (Continued)

HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013. The application of the amendments is unlikely to have any material financial impact on the Group.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

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

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

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The application of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

5. Accounting Policies (Continued)

Impact of issued but not yet effective HKFRSs (Continued)

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10, provide further relief from full retrospective application of these standards, and limit the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

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

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

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use has already been required or permitted under other HKFRSs. The Group expects to adopt the standard from 1 January 2013. The application of this new standard is unlikely to have any material financial impact on the Group.

HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). For the Group, the amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013. The application of this new standard is unlikely to have any material financial impact on the Group.

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

Notes to Financial Statements

5. Accounting Policies (Continued)

Impact of issued but not yet effective HKFRSs (Continued)

Annual Improvements 2009-2011 Cycle issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group:

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

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

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

(c) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

(1) Foreign currency translation

The consolidated financial statements are presented in Hong Kong dollars, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in "Other operating income" or "Other operating expenses" in the consolidated income statement with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity which is taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recorded in other comprehensive income.

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(1) Foreign currency translation (Continued)

(i) Transactions and balances (Continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries and overseas branches and offices are translated into the Group's presentation currency at the rates of exchange ruling at the end of the reporting period, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement as part of gain or loss on disposal.

(2) Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset. Derivatives are recognised on the trade date basis.

(ii) Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments are acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(iii) Derivative financial instruments

Derivatives include interest rate swaps and futures, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held for trading are included in "Net gain or loss on derivative financial instruments".

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host contract are carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated income statement.

Notes to Financial Statements

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(iv) Financial assets designated at fair value through profit or loss

Financial assets classified in this category are held for trading or are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets designated at fair value through profit or loss". Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other operating income" when the right to the payment has been established.

(v) Held-to-maturity investments

Held-to-maturity investments at amortised cost are those which carry fixed or determinable payments and have fixed maturity and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in "Interest income" in the consolidated income statement. The losses arising from impairment of such investments are recognised in the consolidated income statement as "Impairment allowances for held-to-maturity investments".

(vi) Cash and short term placements, placements with banks and financial institutions, and loans and advances and receivables

Cash and short term placements, placements with banks and financial institutions, and loans and advances and receivables are categorised as loans and advances. They are carried at amortised cost and are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short term resale. After initial measurement, amounts due from banks and loans and advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in "Interest income" in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Impairment allowances for loans and advances and receivables".

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(vii) Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity investments or loans and advances. They include equity instruments, investments in mutual funds and money markets and other debt instruments.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the "Available-for-sale financial asset revaluation reserve".

When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement in "Other operating income" or "Other operating expenses". Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in, first-out basis. Interest earned whilst holding available-for-sale financial assets is reported as interest income using the effective interest rate method. Dividends earned whilst holding available-for-sale financial assets are recognised in the consolidated income statement as "Other operating income" when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the consolidated income statement in "Impairment allowances for available-for-sale financial assets" and removed from the "Available-for-sale financial asset revaluation reserve".

(viii) Certificates of deposit

Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as liabilities under "Certificates of deposit issued at amortised cost" where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number or own equity shares. The components of compound financial instruments, that contain both liability and equity elements, are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(ix) Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process using effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated income statement.

Notes to Financial Statements

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(3) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements in "Other liabilities" at fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement in "Net fees and commission income" under "Other operating income" on a straight line basis over the life of the guarantee.

(4) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(5) Determination of fair value

The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include discounted cash flow analysis, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

(6) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has/have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has/have an impact on the present value of estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a borrower or a group of borrowers is/are experiencing significant financial difficulty, default or delinquency in interest or principal payments, that it is possible that he/they will enter bankruptcy or other financial reorganisation and that there are observable data indicating a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with default.

(i) Placements with banks and financial institutions, and loans and advances and receivables

For amounts due from banks and loans and advances to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and the Group collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral had been realised or had been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. If a future write-off is later recovered, the recovery is credited to "Impairment losses and allowances" in the consolidated income statement.

Notes to Financial Statements

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(6) Impairment of financial assets (Continued)

(i) Placements with banks and financial institutions, and loans and advances and receivables (Continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit risk-based system that considers credit risk characteristics such as asset type, industry, collateral type, economic factors and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Held-to-maturity investments

For held-to-maturity investments, the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to "Impairment allowances for held-to-maturity investments", to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(iii) Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is removed from other comprehensive income and recognised in the consolidated income statement.

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(6) Impairment of financial assets (Continued)

(iii) Available-for-sale financial assets (Continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the consolidated income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement.

(7) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item other than legal titles, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and classified as "Property and equipment" but represented on a separate line with the corresponding liability to the lessor included in "Other liabilities". Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in "Interest expense" in the consolidated income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are not recognised in the consolidated statement of financial position. Any rentals payable are accounted for on a straight-line basis over the lease term and are included in "Operating expenses".

Notes to Financial Statements

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(7) Leases (Continued)

(i) Group as a lessee (Continued)

Land held under finance leases are stated at cost less accumulated depreciation and any impairment, and are depreciated over the remaining lease terms on a straight-line basis to the consolidated income statement.

Medium term leases are leases with remaining lease periods of more than 10 years but not more than 50 years. Long term leases are leases with remaining lease periods of more than 50 years.

(ii) Group as a lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. The Group leases out all of its investment properties as operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and are recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

The amounts due from the lessees under finance leases are recorded in the consolidated statement of financial position as loans and advances to customers. The amount comprises the gross investment in the finance leases less gross earnings allocated to future accounting periods. The total gross earnings under finance leases are allocated to the accounting periods over the duration of the underlying agreements so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

(8) Recognition of revenue and expenditure

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as available-for-sale financial assets, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest income or expense.

Once the value of a financial asset or a group of similar financial assets had been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(8) Recognition of revenue and expenditure (Continued)

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(a) Fee income earned from services that are provided over a certain period of time

Fees earned from the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(b) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

(iii) Dividend income

Dividend income is recognised when the Group's right to receive the payment is established.

(iv) Net trading income

Net trading income arising from trading activities includes all gains and losses from changes in fair value for financial assets and financial liabilities held for trading. Gains and losses on foreign exchange trading and other transactions are also reported as "Net trading income" except for those gains and losses on translation of foreign currencies recognised in the translation reserve.

(v) Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the consolidated income statement as "Other operating income".

(9) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, amounts due from banks on demand or with original maturity within three months and held-to-maturity investments with original maturity within three months.

(10) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

Notes to Financial Statements

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(10) Business combinations and goodwill (Continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or a liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in consolidated income statement as gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(11) Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's consolidated income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(12) Joint venture companies and jointly-controlled entities

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the ventures, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of its jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity is eliminated to the extent of the Group's interest in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. The Group's interest in jointly-controlled entities is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The result of jointly-controlled entity is included in the Company's consolidated income statement to the extent of dividends received and receivable. The Company's interest in jointly-controlled entity is treated as non-current asset and is stated at cost less any impairment losses.

Notes to Financial Statements

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(13) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(14) Property and equipment, and depreciation

The property and equipment is stated at cost, except for certain buildings transferred from investment properties, which are stated at deemed cost at the date of transfer, less accumulated depreciation and impairment. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(14) Property and equipment, and depreciation (Continued)

Depreciation is calculated on a straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2% to 4%
Leasehold improvements:	
Own leasehold buildings	20% to 33⅓%
Others	Over the shorter of the remaining lease terms and 7 years
Furniture, fixtures and equipment	10% to 33⅓%
Motor vehicles	20% to 25%
Land held under finance leases	Over the lease terms

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Land held under finance leases are stated at cost less accumulated depreciation and any impairment, and are depreciated over the remaining lease terms on a straight-line basis to the consolidated income statement.

Medium term leases are leases with remaining lease periods of more than 10 years to 50 years. Long term leases are leases with remaining lease periods of more than 50 years.

(15) Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

Notes to Financial Statements

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(15) Investment properties (Continued)

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the consolidated income statement.

(16) Intangible assets (other than goodwill)

Intangible assets, representing eligibility rights to trade on or through Hong Kong Exchanges and Clearing Limited, are stated at cost less impairment. The useful lives are assessed to be indefinite and they are reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis. The carrying amount of intangible assets is subject to an annual impairment test, and impairment, if any, is charged to the consolidated income statement.

(17) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined as the actual cost for taxi cabs and taxi licences. Net realisable value is based on estimated selling prices less any estimated costs to be incurred on disposal.

(18) Impairment of non-financial assets

The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) the Group considered impaired is written down to its recoverable amount.

For assets excluding goodwill, deferred tax assets and inventories of taxi licences, an assessment is made at each reporting date as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period it arises.

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(19) Repossessed assets and valuation of collateral

Collateral assets for loans and advances and receivables are repossessed by the Group when the borrowers are unable to service their repayments, and would be realised in satisfaction of outstanding debts. Advances with repossessed collateral assets will continue to be accounted for as customer advances, except for those where the Group has taken the legal title and control of the repossessed collateral assets, in which cases the repossessed assets are shown under other accounts at the predetermined value with a corresponding reduction in the related advances. Individual impairment allowance is made on the shortfall between the expected net realisable value of the repossessed assets and the outstanding advances.

Collateral assets (including repossessed assets and assets not yet repossessed) are recognised at the lower of the carrying amount of the related loans and advances and receivables and fair value less costs to sell.

(20) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in “Operating expenses” in the consolidated income statement.

(21) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to Financial Statements

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(21) Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credit and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credit and unused tax losses can be utilised except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(22) Employee benefits

(a) Retirement benefit schemes

The Group participates in two defined contribution retirement benefit schemes for those employees who are eligible to participate. The assets of the schemes are held separately from those of the Group in independently administered funds.

Contribution for Mandatory Provident Fund Scheme is made based on a percentage of the participating employees' relevant monthly income from the Group while contribution for Occupational Retirement Scheme Ordinance Scheme is made based on the participating employees' basic salary, and the contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the respective schemes. When an employee leaves the Group prior to his/her interest in the Group's employer non-mandatory contributions vesting with the employee, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. The Group's mandatory contributions vest fully with the employee.

5. Accounting Policies (Continued)

Summary of significant accounting policies (Continued)

(22) Employee benefits (Continued)

(b) *Share option scheme*

The Company operates an employees' share option scheme (the "ESOS") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments whereby employees render services as consideration for equity-settled transactions.

For share options granted under the ESOS, the fair value of the employee's services rendered in exchange for the grant of the options is recognised as an expense and credited to an employee share-based compensation reserve under equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at the grant date. At the end of each reporting period, the Group revises its estimates of the number of options that is expected to become exercisable. It recognises the impact of the revision of the original estimates, if any, in the consolidated income statement, and a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified if the original terms of the award are met. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(c) *Employee leave entitlements*

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated as at the end of the reporting period.

(23) Dividends

Final dividends proposed by the directors will remain in retained profits within reserves in the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared by the directors. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

Notes to Financial Statements

6. Significant Accounting Estimates

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment allowances on loans and advances and receivables, and held-to-maturity investments

The Group reviews its portfolios of loans and advances and receivables and held-to-maturity investments to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the discounted estimated future cash flows from a portfolio of loans and advances and receivables, and held-to-maturity investments before the decrease can be identified with an individual loan or held-to-maturity investment in those portfolios. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

For loans and advances and receivables for which no individual impairment is observed, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the loan portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 and 2011 was HK$2,774,403,000, of which HK$832,321,000 was attributed to Public Bank (Hong Kong) and HK$1,942,082,000 was attributed to Public Finance. Further details are set out in note 29 to the financial statements.

7. Segment Information

Operating segment information

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

- the retail and commercial banking businesses segment mainly comprises the provision of deposit account services, the extension of mortgages and consumer lending, hire purchase and leasing, provision of financing to purchasers of licensed public vehicles such as taxis and public light buses, provision of services and financing activities for customers in trading, manufacturing and various business sectors, foreign exchange activities, centralised cash management for deposit taking and lending, interest rate risk management and the overall funding management of the Group;

- the wealth management services, stockbroking and securities management segment comprises management of investments in debt securities and equities, securities dealing and receipt of commission income and the provision of authorised wealth management products and services; and

- other businesses segments comprises taxi trading and the leasing of taxis and letting of investment properties.

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

7. Segment Information (Continued)

Operating segment information (Continued)

The following table represents revenue and profit information for operating segments for the years ended 31 December 2012 and 2011.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Segment revenue										
External:										
Net interest income	**1,237,915**	1,212,342	**(27)**	59	**-**	–	**-**	–	**1,237,888**	1,212,401
Other operating income:										
Fees and commission income	**147,287**	150,736	**44,212**	93,783	**848**	437	**-**	–	**192,347**	244,956
Others	**11,374**	11,917	**(11)**	–	**14,422**	19,886	**-**	–	**25,785**	31,803
Inter-segment transactions:										
Fees and commission income	**-**	–	**-**	–	**259**	336	**(259)**	(336)	**-**	–
Operating income	**1,396,576**	1,374,995	**44,174**	93,842	**15,529**	20,659	**(259)**	(336)	**1,456,020**	1,489,160
Profit before tax	**378,239**	421,746	**12,510**	21,621	**65,030**	24,844	**-**	–	**455,779**	468,211
Tax									**(74,208)**	(92,246)
Profit for the year									**381,571**	375,965
Other segment information										
Depreciation of property and equipment and land held under finance leases	**(31,246)**	(32,014)	**-**	–	**-**	–	**-**	–	**(31,246)**	(32,014)
Changes in fair value of investment properties	**-**	–	**-**	–	**59,993**	6,644	**-**	–	**59,993**	6,644
Impairment allowances for loans and advances and receivables	**(316,136)**	(327,574)	**-**	–	**-**	–	**-**	–	**(316,136)**	(327,574)
Net losses on disposal of property and equipment	**(106)**	(199)	**-**	–	**-**	–	**-**	–	**(106)**	(199)

Notes to Financial Statements

7. Segment Information (Continued)

Operating segment information (Continued)

The following table represents certain asset and liability information regarding operating segments as at 31 December 2012 and 2011.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Segment assets other than interest in a jointly-controlled entity, intangible assets and goodwill	**37,167,712**	36,718,085	**292,462**	236,279	**249,816**	199,034	**-**	–	**37,709,990**	37,153,398
Interest in a jointly-controlled entity	**1,513**	1,513	**-**	–	**-**	–	**-**	–	**1,513**	1,513
Intangible assets	**-**	–	**718**	718	**-**	–	**-**	–	**718**	718
Goodwill	**2,774,403**	2,774,403	**-**	–	**-**	–	**-**	–	**2,774,403**	2,774,403
	39,943,628	39,494,001	**293,180**	236,997	**249,816**	199,034	**-**	–	**40,486,624**	39,930,032
Unallocated assets:										
Deferred tax assets and tax recoverable									**49,218**	37,333
Total assets									**40,535,842**	39,967,365
Segment liabilities	**33,743,197**	33,429,739	**113,085**	64,984	**7,285**	6,656	**-**	–	**33,863,567**	33,501,379
Unallocated liabilities:										
Deferred tax liabilities and tax payable									**48,170**	53,431
Dividends payable									**98,812**	120,771
Total liabilities									**34,010,549**	33,675,581
Other segment information										
Additions to non-current assets – capital expenditure	**24,399**	16,668	**-**	–	**-**	–	**-**	–	**24,399**	16,668

7. Segment Information (Continued)

Geographical information

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

The following table represents segment revenue information for geographical segments for the years ended 31 December 2012 and 2011.

	2012 HK$'000	2011 HK$'000
Segment revenue from external customers:		
Hong Kong	**1,387,598**	1,429,862
Mainland China	**68,422**	59,298
	1,456,020	1,489,160

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

The following table represents non-current assets information for geographical segments as at 31 December 2012 and 2011.

	2012 HK$'000	2011 HK$'000
Non-current assets:		
Hong Kong	**3,775,719**	3,722,387
Mainland China	**18,638**	18,973
	3,794,357	3,741,360

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

Operating income or revenue from major customers

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

Notes to Financial Statements

8. Interest Income and Expense

	2012 HK$'000	2011 HK$'000
Interest income from:		
Loans and advances and receivables	**1,533,106**	1,483,273
Short term placements and placements with banks	**58,779**	46,682
Held-to-maturity investments	**50,989**	59,666
	1,642,874	1,589,621
Interest expense on:		
Deposits from banks and financial institutions	**30,693**	27,654
Deposits from customers	**340,512**	318,103
Bank loans	**33,781**	31,463
	404,986	377,220

Interest income and interest expense for the year ended 31 December 2012, 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$1,642,874,000 and HK$404,986,000 (2011: HK$1,589,621,000 and HK$377,220,000) respectively. Interest income on the impaired loans and advances for the year ended 31 December 2012 amounted to HK$5,382,000 (2011: HK$5,256,000).

9. Other Operating Income

	2012 HK$'000	2011 HK$'000
Fees and commission income:		
Retail and commercial banking	**149,708**	152,307
Wealth management services, stockbroking and securities management	**44,212**	93,783
	193,920	246,090
Less: Fees and commission expenses	**(1,573)**	(1,134)
Net fees and commission income	**192,347**	244,956
Gross rental income	**13,879**	12,514
Less: Direct operating expenses	**(85)**	(79)
Net rental income	**13,794**	12,435
Gains less losses arising from dealing in foreign currencies	**7,071**	6,129
Net losses on disposal of property and equipment	**(106)**	(199)
Dividend income from listed investments	**23**	13
Dividend income from unlisted investments	**1,000**	500
Net gain on derivative financial instruments	**182**	1,169
Others	**3,821**	11,756
	218,132	276,759

9. Other Operating Income (Continued)

Direct operating expenses include repair and maintenance expenses arising from investment properties.

There were no net gains or losses arising from held-to-maturity investments, loans and advances and receivables, financial liabilities at amortised cost and financial liabilities designated at fair value through profit or loss for the years ended 31 December 2012 and 2011.

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.

10. Operating Expenses

	2012 HK$'000	2011 HK$'000
Staff costs:		
Salaries and other staff costs	**399,516**	396,105
Pension contributions	**18,977**	18,264
Less: Forfeited contributions	**(24)**	(18)
Net retirement benefit schemes	**18,953**	18,246
	418,469	414,351
Other operating expenses:		
Operating lease rentals on leasehold buildings	**58,000**	54,412
Depreciation of property and equipment and land held under finance leases	**31,246**	32,014
Auditors' remuneration	**3,677**	3,580
Administrative and general expenses	**67,320**	69,122
Others	**165,386**	160,697
Operating expenses before changes in fair value of investment properties	**744,098**	734,176

At 31 December 2012 and 2011, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The current year credits arose in respect of staff who left the schemes during the year.

Notes to Financial Statements

11. Impairment Allowances

	2012 HK$'000	2011 HK$'000
Net charge for/(write-back of) impairment losses and allowances:		
– loans and advances	**316,141**	329,965
– trade bills, accrued interest and receivables	**(5)**	(2,391)
	316,136	327,574
Net charge for/(write-back of) impairment losses and allowances:		
– individually assessed	**318,545**	330,672
– collectively assessed	**(2,409)**	(3,098)
	316,136	327,574
Of which:		
– new impairment losses and allowances (including any amount directly written off during the year)	**496,207**	490,897
– releases and recoveries	**(180,071)**	(163,323)
Net charge to the consolidated income statement	**316,136**	327,574

There were no impairment allowances for financial assets other than loans and advances and receivables for the years ended 31 December 2012 and 2011.

12. Directors' Remuneration

The remuneration of each director for the years ended 31 December 2012 and 2011 is set out below:

Group

			2012		
Name of director	Fees	Salaries and other benefits (Note 1)	Bonuses	Retirement benefit contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Tan Sri Dato' Sri Dr. Teh Hong Piow	325	–	–	–	325
Tan Sri Datuk Seri Utama Thong Yaw Hong	240	–	–	–	240
Tan Yoke Kong (Note 2)	100	1,790	617	196	2,703
Chong Yam Kiang	100	1,671	387	86	2,244
Lee Huat Oon	50	1,362	463	151	2,026
Tan Sri Dato' Sri Tay Ah Lek	285	–	–	–	285
Dato' Chang Kat Kiam	150	–	–	–	150
Lee Chin Guan	200	–	–	–	200
Quah Poh Keat	200	–	–	–	200
	1,650	4,823	1,467	433	8,373

Notes to Financial Statements

12. Directors' Remuneration (Continued)

Group

	2011				
Name of director	Fees	Salaries and other benefits (Note 1)	Bonuses	Retirement benefit contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Tan Sri Dato' Sri Dr. Teh Hong Piow	325	–	–	–	325
Tan Sri Datuk Seri Utama Thong Yaw Hong	240	–	–	–	240
Tan Yoke Kong (Note 2)	100	1,709	619	187	2,615
Chong Yam Kiang	100	1,558	382	82	2,122
Lee Huat Oon	50	1,268	453	140	1,911
Tan Sri Dato' Sri Tay Ah Lek	285	–	–	–	285
Dato' Chang Kat Kiam	150	–	–	–	150
Lee Chin Guan	200	–	–	–	200
Quah Poh Keat	200	–	–	–	200
	1,650	4,535	1,454	409	8,048

Notes:

1. Salaries and other benefits included basic salaries, housing allowances, other allowances, benefits in kind and employee share option benefits. No employee share option benefits were paid in 2012 (2011: Nil) and the employee share option benefits represented the fair value at the date of share options granted and accepted under the ESOS amortised to the consolidated income statement in the prior year disregarding whether the options have been exercised or not.

2. The director occupies a property of the Group at rent free. The estimated monetary value of the accommodation provided to him during the year which was not charged to the consolidated income statement was HK$907,200 (2011: HK$839,160).

13. Five Highest Paid Individuals

The five highest paid individuals during the year included three (2011: three) directors, details of whose remuneration are set out in note 12 above.

Details of the remaining two (2011: two) highest paid individuals' remuneration are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**3,507**	2,800
Bonuses paid and payable	**62**	443
Retirement benefit scheme contributions	**40**	150
	3,609	3,393

The number of highest paid individuals whose remuneration fell within the bands set out below is as follows:

	Group	
	2012	2011
	Number of individuals	Number of individuals
Nil – HK$1,000,000	**–**	–
HK$1,000,001 – HK$1,500,000	**–**	–
HK$1,500,001 – HK$2,000,000	**2**	2
	2	2

14. Tax

	2012	2011
	HK$'000	HK$'000 (Restated)
Current tax charge:		
Hong Kong	**59,056**	71,674
Elsewhere	**13,770**	18,892
Underprovisions in prior years	**11,427**	7,157
Deferred tax credit, net (note 34)	**(10,045)**	(5,477)
	74,208	92,246

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Notes to Financial Statements

14. Tax (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the locations in which the Company, its subsidiaries and a jointly-controlled entity are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	2012					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**401,662**		**54,117**		**455,779**	
Tax at the applicable tax rate	**66,274**	**16.5**	**13,530**	**25.0**	**79,804**	**17.5**
Estimated tax losses from previous periods utilised	**(4)**	**–**	**–**	**–**	**(4)**	**–**
Estimated tax effect of net (income)/ expenses that is not (taxable)/deductible	**(4,141)**	**(1.0)**	**52**	**0.1**	**(4,089)**	**(0.9)**
Adjustments in respect of deferred tax of previous periods	**(13,447)**	**(3.3)**	**517**	**1.0**	**(12,930)**	**(2.8)**
Adjustments in respect of current tax of previous periods	**11,427**	**2.8**	**–**	**–**	**11,427**	**2.5**
Tax charge at the Group's effective rate	**60,109**	**15.0**	**14,099**	**26.1**	**74,208**	**16.3**

	2011					
	Hong Kong		Mainland China		Total	
	HK$'000 (Restated)	%	HK$'000	%	HK$'000 (Restated)	%
Profit before tax	462,643		5,568		468,211	
Tax at the applicable tax rate	76,336	16.5	1,336	24.0	77,672	16.6
Effect on change in tax rates	–	–	74	1.3	74	–
Estimated tax losses from previous periods utilised	(5)	–	–	–	(5)	–
Estimated tax effect of net expenses that is not deductible	4,166	0.9	–	–	4,166	0.9
Adjustments in respect of deferred tax of previous periods	3,531	0.8	(349)	(6.3)	3,182	0.7
Adjustments in respect of current tax of previous periods	6,500	1.4	657	11.8	7,157	1.5
Tax charge at the Group's effective rate	90,528	19.6	1,718	30.8	92,246	19.7

15. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for the year ended 31 December 2012 included a profit of HK$627,036,000 (2011(Restated): HK$230,358,000) which has been dealt with in the financial statements of the Company (note 39).

16. Dividends

	2012 HK$ per ordinary share	2011 HK$ per ordinary share	2012 HK$'000	2011 HK$'000
Interim:				
First	**0.05**	0.05	**54,896**	54,896
Second	**0.09**	0.11	**98,812**	120,771
	0.14	0.16	**153,708**	175,667

17. Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year of HK$381,571,000 (2011 (Restated): HK$375,965,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2011: 1,097,917,618) during the year.

(b) Diluted earnings per share

The share options outstanding during the years ended 31 December 2012 and 2011 had no dilutive effect on the basic earnings per share for these years. The calculation of diluted earnings per share for the year ended 31 December 2012 was based on the profit for the year of HK$381,571,000 (2011 (Restated): HK$375,965,000) and on the weighted average number of ordinary shares of 1,097,917,618 (2011: 1,097,917,618), being the weighted average number of ordinary shares in issue of 1,097,917,618 (2011: 1,097,917,618) during the year as used in the basic earnings per share calculation.

Notes to Financial Statements

18. Cash and Short Term Placements

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash in hand	**130,182**	185,538	**–**	–
Placements with banks and financial institutions	**578,371**	844,717	**28,177**	54,779
Money at call and short notice	**3,242,915**	3,545,027	**–**	–
	3,951,468	4,575,282	**28,177**	54,779

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

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

19. Placements with Banks and Financial Institutions Maturing after One Month But Not More Than Twelve Months

	Group	
	2012	2011
	HK$'000	HK$'000
Placements with banks and financial institutions	**873,951**	513,527

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

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

20. Loans and Advances and Receivables

	Group 2012 HK$'000	2011 HK$'000
Loans and advances to customers	**27,100,271**	27,621,506
Trade bills	**82,066**	7,264
Loans and advances, and trade bills	**27,182,337**	27,628,770
Accrued interest	**90,896**	90,602
	27,273,233	27,719,372
Other receivables	**48,092**	52,098
Gross loans and advances and receivables	**27,321,325**	27,771,470
Less: Impairment allowances for loans and advances and receivables		
– individually assessed	**(124,367)**	(166,162)
– collectively assessed	**(27,455)**	(29,809)
	(151,822)	(195,971)
Loans and advances and receivables	**27,169,503**	27,575,499

Over 90% of the loans and advances and receivables were unrated exposures. 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.

Loans and advances and receivables are summarised as follows:

	Group 2012 HK$'000	2011 HK$'000
Neither past due nor impaired loans and advances and receivables	**26,629,959**	27,071,390
Past due but not impaired loans and advances and receivables	**447,883**	410,608
Individually impaired loans and advances	**227,588**	276,090
Individually impaired receivables	**15,895**	13,382
Total loans and advances and receivables	**27,321,325**	27,771,470

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

Notes to Financial Statements

20. Loans and Advances and Receivables (Continued)

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

	Group			
	2012		2011	
	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	**93,668**	**0.35**	106,732	0.39
One year or less but over six months	**3,347**	**0.01**	2,630	0.01
Over one year	**90,873**	**0.33**	131,836	0.48
Loans and advances overdue for more than three months	**187,888**	**0.69**	241,198	0.88
Rescheduled loans and advances overdue for three months or less	**34,400**	**0.13**	31,404	0.11
Impaired loans and advances overdue for three months or less	**5,300**	**0.02**	3,488	0.01
Total overdue and impaired loans and advances	**227,588**	**0.84**	276,090	1.00

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

	Group	
	2012 HK$'000	2011 HK$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**116**	328
One year or less but over six months	**63**	1
Over one year	**15,715**	13,049
Trade bills, accrued interest and other receivables overdue for more than three months	**15,894**	13,378
Impaired trade bills, accrued interest and other receivables overdue for three months or less	**1**	4
Total overdue and impaired trade bills, accrued interest and other receivables	**15,895**	13,382

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

20. Loans and Advances and Receivables (Continued)

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

	Group					
	2012			2011		
	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	**97,623**	**106,159**	**203,782**	102,789	151,787	254,576
Individual impairment allowances	**69,045**	**30,961**	**100,006**	70,502	75,111	145,613
Current market value and fair value of collateral			**238,992**			203,239
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**137,324**	**106,159**	**243,483**	137,685	151,787	289,472
Individual impairment allowances	**93,406**	**30,961**	**124,367**	91,051	75,111	166,162
Current market value and fair value of collateral			**242,715**			205,728

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

Notes to Financial Statements

20. 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:

	Group	
	2012	2011
	HK$'000	HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**238,992**	203,239
Covered portion of overdue loans and advances	**78,063**	75,741
Uncovered portion of overdue loans and advances	**109,825**	165,457

The assets taken as collateral should satisfy the following criteria:

– The market value of the asset is readily determinable or can be reasonably established and verified.

– The asset is marketable and there exists a readily available secondary market for disposal of the asset.

– The Group's right to repossess the asset is legally enforceable without impediment.

– The Group is able to secure control over the asset if necessary.

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

– Central governments with a grading of Aa3 or above

– Unrated public sector enterprises

– Banks with a grading of Baa2 or above

– Unrated corporations

– Individual shareholders and directors of corporate customers

(d) Repossessed assets

There was no repossessed assets of the Group as at 31 December 2012 (2011: HK$3,100,000).

20. Loans and Advances and Receivables (Continued)

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

	Group			
	2012		2011	
	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	**445,959**	**1.65**	409,960	1.48
Trade bills, accrued interest and other receivables overdue for three months or less	**1,924**		648	

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

Group

	2012		
	Individual impairment allowances HK$'000	**Collective impairment allowances HK$'000**	**Total HK$'000**
At 1 January 2012	**166,162**	**29,809**	**195,971**
Amounts written off	**(531,410)**	**–**	**(531,410)**
Impairment losses and allowances charged to the consolidated income statement	**490,392**	**5,815**	**496,207**
Impairment losses and allowances released to the consolidated income statement	**(171,847)**	**(8,224)**	**(180,071)**
Net charge/(release) of impairment losses and allowances	**318,545**	**(2,409)**	**316,136**
Loans and advances and receivables recovered	**170,460**	**–**	**170,460**
Exchange difference	**610**	**55**	**665**
At 31 December 2012	**124,367**	**27,455**	**151,822**
Deducted from:			
Loans and advances	**122,560**	**27,294**	**149,854**
Trade bills, accrued interest and other receivables	**1,807**	**161**	**1,968**
	124,367	**27,455**	**151,822**

Notes to Financial Statements

20. Loans and Advances and Receivables (Continued)

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

Group

	2011 Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
At 1 January 2011	171,967	32,907	204,874
Amounts written off	(491,755)	–	(491,755)
Impairment losses and allowances charged to the consolidated income statement	488,129	2,768	490,897
Impairment losses and allowances released to the consolidated income statement	(157,457)	(5,866)	(163,323)
Net charge/(release) of impairment losses and allowances	330,672	(3,098)	327,574
Loans and advances and receivables recovered	152,319	–	152,319
Exchange difference	2,959	–	2,959
At 31 December 2011	166,162	29,809	195,971
Deducted from:			
Loans and advances	164,220	29,778	193,998
Trade bills, accrued interest and other receivables	1,942	31	1,973
	166,162	29,809	195,971

20. 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:

	Group			
	2012	2011	**2012**	2011
	Minimum lease payments		**Present value of minimum lease payments**	
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts receivable under finance leases:				
Within one year	**401,340**	409,076	**306,648**	319,864
In the second to fifth years, inclusive	**1,098,536**	1,079,293	**809,263**	824,110
Over five years	**3,717,213**	3,510,259	**3,115,985**	2,986,859
	5,217,089	4,998,628	**4,231,896**	4,130,833
Less: Unearned finance income	**(985,193)**	(867,795)		
Present value of minimum lease payments receivable	**4,231,896**	4,130,833		

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.

21. Available-For-Sale Financial Assets

	Group	
	2012	2011
	HK$'000	HK$'000
Unlisted equity investments, at fair value:		
At the beginning and the end of the year	**6,804**	6,804

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

Notes to Financial Statements

22. Held-to-Maturity Investments

	Group 2012 HK$'000	2011 HK$'000
Certificates of deposit held	**1,687,788**	1,042,281
Treasury bills (including Exchange Fund Bills)	**1,695,873**	1,489,901
Other debt securities	**1,172,556**	889,321
	4,556,217	3,421,503
Listed or unlisted:		
– Listed in Hong Kong	**42,156**	–
– Unlisted	**4,514,061**	3,421,503
	4,556,217	3,421,503
Analysed by types of issuers:		
– Central government	**1,695,873**	1,489,901
– Banks and other financial institutions	**2,860,344**	1,931,602
	4,556,217	3,421,503

Impairment allowances of held-to-maturity investments were nil as at 31 December 2012 and 2011. There were no movements in impairment allowances for the years ended 31 December 2012 and 2011.

There were neither impaired nor overdue held-to-maturity investments as at 31 December 2012 and 2011.

All exposures attributed to the held-to-maturity investments were rated with a grading of Baa2 or above based on the credit rating of an external credit agency, Moody's.

23. Investment Properties

	Group HK$'000	Company HK$'000
At valuation:		
At 1 January 2011	188,665	1,132,190
Changes in fair value	6,644	29,670
At 31 December 2011 and 1 January 2012	**195,309**	**1,161,860**
Transfer to property and equipment	**(450)**	**–**
Transfer to land held under finance leases	**(9,134)**	**–**
Changes in fair value	**59,993**	**472,062**
At 31 December 2012	**245,718**	**1,633,922**

The Group's investment properties are all situated in Hong Kong and are held under the following lease terms:

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
At valuation:				
Medium term leases	**245,718**	185,725	**465,145**	330,760
Long term leases	**–**	9,584	**1,168,777**	831,100
	245,718	195,309	**1,633,922**	1,161,860

At 31 December 2012, investment properties with a carrying amount of HK$185,725,000 (2011: HK$188,665,000) were revalued at HK$245,718,000 (2011: HK$195,309,000) according to revaluation reports issued by C S Surveyors Limited, a firm of independent professionally qualified valuers, on an open market value and existing use basis. The increase in fair value of HK$59,993,000 (2011: HK$6,644,000) resulting from the above valuation has been credited to the consolidated income statement.

The investment properties held by the Group are let under operating leases from which the Group earns rental income. Details of future annual rental receivables under operating leases are included in note 40(a) to the financial statements.

Notes to Financial Statements

24. Property and Equipment

	Group Buildings HK$'000	Group Leasehold improvements, furniture, fixtures and equipment HK$'000	Group Motor vehicles HK$'000	Group Total HK$'000	Company Leasehold improvements, furniture, fixtures and equipment HK$'000
Cost:					
At 1 January 2011	71,500	163,459	2,984	237,943	919
Additions	–	16,518	150	16,668	235
Disposals/write-off	–	(807)	(1,136)	(1,943)	–
At 31 December 2011 and 1 January 2012	**71,500**	**179,170**	**1,998**	**252,668**	**1,154**
Transfer from investment properties	**450**	**–**	**–**	**450**	**–**
Additions	**–**	**24,399**	**–**	**24,399**	**345**
Disposals/write-off	**–**	**(12,668)**	**–**	**(12,668)**	**(4)**
At 31 December 2012	**71,950**	**190,901**	**1,998**	**264,849**	**1,495**
Accumulated depreciation:					
At 1 January 2011	14,073	101,409	2,846	118,328	429
Provided during the year	1,578	22,898	38	24,514	161
Exchange difference	53	–	–	53	–
Disposals/write-off	–	(608)	(1,136)	(1,744)	–
At 31 December 2011 and 1 January 2012	**15,704**	**123,699**	**1,748**	**141,151**	**590**
Provided during the year	**1,631**	**22,055**	**50**	**23,736**	**185**
Exchange difference	**10**	**–**	**–**	**10**	**–**
Disposals/write-off	**–**	**(12,529)**	**–**	**(12,529)**	**(4)**
At 31 December 2012	**17,345**	**133,225**	**1,798**	**152,368**	**771**
Net carrying amount:					
At 31 December 2012	**54,605**	**57,676**	**200**	**112,481**	**724**
At 31 December 2011	55,796	55,471	250	111,517	564

No valuation has been made for the above items of property and equipment for the years ended 31 December 2012 and 2011.

25. Land Held under Finance Leases

	Group HK$'000
Cost:	
At 1 January 2011, 31 December 2011, 1 January 2012	**725,010**
Transfer from investment properties	**9,134**
At 31 December 2012	**734,144**
Accumulated depreciation and impairment:	
At 1 January 2011	59,610
Depreciation provided during the year	7,500
At 31 December 2011 and 1 January 2012	**67,110**
Depreciation provided during the year	**7,510**
At 31 December 2012	**74,620**
Net carrying amount:	
At 31 December 2012	**659,524**
At 31 December 2011	657,900

The land held under finance leases at net carrying amount is held under the following lease terms:

	Group 2012 HK$'000	2011 HK$'000
Leaseholds:		
Held in Hong Kong		
– On long term leases	**427,057**	418,878
– On medium term leases	**210,205**	215,993
Held outside Hong Kong		
– On medium term leases	**22,262**	23,029
	659,524	657,900

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

26. Investments in Subsidiaries

	Company 2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**6,593,507**	6,593,507
Amounts due from subsidiaries	**22,876**	28,988
	6,616,383	6,622,495

The amounts due from subsidiaries were unsecured, and had no fixed terms of repayment. No interest-bearing amounts were due from subsidiaries as at 31 December 2012 and 2011. The non-interest-bearing amounts due from subsidiaries of HK$22,876,000 (2011: HK$28,988,000) were non-current in nature.

Notes to Financial Statements

26. Investments in Subsidiaries (Continued)

Particulars of the Company's subsidiaries are as follows:

Name	Nominal value of issued ordinary share capital HK$	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Public Bank (Hong Kong) Limited	1,481,600,000	100	–	Provision of banking, financial and related services
Public Bank (Nominees) Limited	100,000	–	100	Provision of nominee services
Public Investments Limited	200	–	100	Dormant
Public Realty Limited	100,000	–	100	Dormant
Public Credit Limited	5,000,000	–	100	Dormant
Public Futures Limited	2	–	100	Dormant
Public Pacific Securities Limited	12,000,000	–	100	Dormant
Public Financial Securities Limited	48,000,000	–	100	Securities brokerage
Public Finance Limited	258,800,000	–	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
Winton (B.V.I.) Limited	61,773	100	–	Investment holding
Winton Holdings (Hong Kong) Limited	20	–	100	Dormant
Winton Financial Limited	4,000,010	–	100	Provision of financing for licensed public vehicles and provision of personal and short term loans and mortgage loans
Winton Motors, Limited	78,000	–	100	Trading of taxi licences and taxi cabs, and leasing of taxis

Note:

Except for Winton (B.V.I.) Limited, which was incorporated in the British Virgin Islands, all subsidiaries were incorporated in Hong Kong. Except for Public Bank (Hong Kong) Limited, which operates in Hong Kong, Mainland China and Taiwan, all subsidiaries operate in Hong Kong. Winsure Company, Limited was dissolved on 3 December 2012.

27. Interest in a Jointly-Controlled Entity

	Group 2012 HK$'000	2011 HK$'000
Share of net assets other than goodwill	**1,513**	1,513

Particulars of the Group's jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership, interest and profit sharing %	Voting power	Principal activity
Net Alliance Co. Limited	Corporate	Hong Kong	17.6	2 out of 8*	Provision of electronic banking support services

* Representing the number of votes on the board of directors attributable to the Group

The following table illustrates the summarised financial information of the Group's interest in the jointly-controlled entity which is accounted for using the equity method:

	Group 2012 HK$'000	2011 HK$'000
Share of the jointly-controlled entity's assets and liabilities:		
Assets	**1,874**	1,898
Liabilities	**(361)**	(385)
Net assets	**1,513**	1,513
Share of the jointly-controlled entity's profit or loss:		
Total income	**1,540**	1,481
Total expenses	**(1,540)**	(1,481)
Profit/(loss) after tax	**–**	–

Notes to Financial Statements

28. Other Assets

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interest receivables from authorised institutions	**5,089**	4,105	**–**	–
Other debtors, deposits and prepayments	**126,242**	86,056	**241**	512
	131,331	90,161	**241**	512

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

29. Goodwill

	Group	
	2012	2011
	HK$'000	HK$'000
Cost and net carrying amount:		
At the beginning and the end of the year	**2,774,403**	2,774,403

Impairment test of goodwill

There are two cash-generating units (the "CGUs"), namely Public Bank (Hong Kong) and Public Finance, which represent the main operating entities within the business segment "Retail and commercial banking businesses" identified by the Group. Goodwill acquired through business combinations is allocated on a pro-rata basis to the two CGUs based on the ratio of recoverable amounts of a CGU to those of the other CGU at the date of acquisition. The recoverable amounts of the CGUs at each subsequent reporting date are determined based on the value in use using the present value of cash flows taking into account the expected operating synergy and profitability and growth of businesses arising from the acquisition of Public Bank (Hong Kong) and its subsidiaries. The cash flow projections are based on financial budgets approved by management covering a 10-year period and assumed growth rates are used to extrapolate the cash flows in the following 40 years. The financial budgets are prepared based on a 10-year business plan which is appropriate after considering the sustainability of business growth, stability of core business developments, long term economic cycle and achievement of business targets extrapolated from a track record of financial results. All cash flows are discounted at discount rates of 4% and 7% under baseline and stressed scenarios, respectively. Management's financial model assumes an average growth rate of 5% to 6% per annum from the eleventh to fiftieth year taking into account long term gross domestic product growth and other relevant economic factors. The discount rates used are based on the rates which reflect specific risks relating to the CGUs.

No impairment loss has been recognised in respect of goodwill for the years ended 31 December 2012 and 2011 as its value in use exceeds the carrying amount.

30. Intangible Assets

	Group 2012 HK$'000	2011 HK$'000
Cost:		
At the beginning of the year and at the end of the year	**1,085**	1,085
Accumulated impairment:		
At the beginning of the year and at the end of the year	**367**	367
Net carrying amount:		
At the beginning of the year and at the end of the year	**718**	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 (2011: five units) of Stock Exchange Trading Right and one unit (2011: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

31. Loans to Directors and Officers

Loans granted by the Group to directors and officers disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Group 2012 HK$'000	2011 HK$'000
Aggregate amount of principal and interest outstanding at the end of the year	**368**	540
Maximum aggregate amount of principal and interest outstanding during the year	**1,069**	1,144

The loans to directors and officers are granted on essentially the same terms as those offered to other customers, and/or at prevailing market rates and have no fixed terms of repayment, apart from a loan of HK$333,035 to a director, which is repayable on 25 December 2015 and was secured by a property at a fair value of HK$5,000,000 as at 31 December 2012.

The carrying amounts of these loans approximate to their fair values.

Notes to Financial Statements

32. Customer Deposits at Amortised Cost

	Group	
	2012	2011
	HK$'000	HK$'000
Demand deposits and current accounts	**1,990,331**	2,094,578
Savings deposits	**4,037,715**	3,665,146
Time, call and notice deposits	**23,346,076**	22,575,061
	29,374,122	28,334,785

33. Unsecured Bank Loans at Amortised Cost

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unsecured bank loans	**2,960,437**	2,960,734	**2,150,376**	2,162,660
Repayable:				
On demand or within a period not exceeding one year	**2,094,661**	1,498,074	**1,284,600**	700,000
Within a period of more than one year but not exceeding two years	**865,776**	598,996	**865,776**	598,996
Within a period of more than two years but not exceeding five years	**–**	863,664	**–**	863,664
	2,960,437	2,960,734	**2,150,376**	2,162,660

The unsecured bank loans were denominated in Hong Kong dollars. Carrying amounts of the unsecured bank loans bore interest at floating interest rates and at prevailing market rates.

34. Deferred Tax

The movements in deferred tax assets and liabilities during the year are as follows:

Group

Deferred tax assets:

	Impairment allowances for loans and advances and receivables HK$'000	Recoverable tax loss HK$'000	Other HK$'000	Decelerated tax depreciation of property and equipment HK$'000	Total HK$'000
At 1 January 2011	9,694	835	221	60	10,810
Deferred tax credited/(charged) to consolidated income statement	11,596	(545)	(221)	(30)	10,800
At 31 December 2011 and 1 January 2012	**21,290**	**290**	**–**	**30**	**21,610**
Deferred tax credited/(charged) to consolidated income statement	**15,023**	**(172)**	**155**	**(5)**	**15,001**
At 31 December 2012	**36,313**	**118**	**155**	**25**	**36,611**

Notes to Financial Statements

34. Deferred Tax (Continued)

Group

Deferred tax liabilities:

	Accelerated tax depreciation and revaluation surplus of investment properties HK$'000
At 1 January 2011 as previously reported	23,165
Impact of change in accounting policy (Note 5)	(8,889)
At 1 January 2011 (Restated)	14,276
Deferred tax charged to consolidated income statement as previously reported	6,345
Impact of change in accounting policy (Note 5)	(1,096)
Deferred tax charged to consolidated income statement (Restated)	5,249
Effect of change in tax rates charged to consolidated income statement	74
At 31 December 2011 (Restated)	19,599
At 1 January 2012 as previously reported	**29,584**
Impact of change in accounting policy (Note 5)	**(9,985)**
At 1 January 2012 (Restated)	**19,599**
Deferred tax charged to consolidated income statement	**4,956**
At 31 December 2012	**24,555**

Company

Deferred tax assets:

	Decelerated tax depreciation of property and equipment HK$'000
At 1 January 2011	19
Deferred tax charged to consolidated income statement	(10)
At 31 December 2011 and 1 January 2012	**9**
Deferred tax credited to consolidated income statement	**16**
At 31 December 2012	**25**

34. Deferred Tax (Continued)

Company

Deferred tax liabilities:

	Accelerated tax depreciation and revaluation surplus of investment properties HK$'000
At 1 January 2011 as previously reported	28,137
Impact of change in accounting policy (Note 5)	(27,719)
At 1 January 2011 (Restated)	418
Deferred tax charged to consolidated income statement as previously reported	8,673
Impact of change in accounting policy (Note 5)	(4,896)
Deferred tax charged to consolidated income statement (Restated)	3,777
At 31 December 2011 (Restated)	4,195
At 1 January 2012 as previously reported	**36,810**
Impact of change in accounting policy (Note 5)	**(32,615)**
At 1 January 2012 (Restated)	**4,195**
Deferred tax charged to consolidated income statement	**969**
At 31 December 2012	**5,164**

The Group has tax losses arising in Hong Kong of HK$35,834,000 (2011: HK$36,494,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have incurred losses for some time and it is not considered probable that taxable profit will be available against which tax losses can be utilised.

There are no significant income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Notes to Financial Statements

35. Other Liabilities

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Creditors, accruals and interest payable	**340,744**	444,402	**5,389**	5,252

36. Share Capital

	2012	2011
	HK$'000	HK$'000
Authorised:		
2,000,000,000 (2011: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
1,097,917,618 (2011: 1,097,917,618) ordinary shares of HK$0.10 each	**109,792**	109,792

37. Share Option Scheme

Under the ESOS approved on 28 February 2002, the board of directors granted share options to subscribe for a total of 66,526,000 shares in the Company to eligible participants, including directors and employees of the Company and its subsidiaries, pursuant to a board resolution passed on 18 May 2005. Each share option gives the holder the right to subscribe for one ordinary share. 65,976,000 share options were accepted by the directors and employees of the Group. The Group is not legally bound or obliged to repurchase or settle the options in cash.

Pursuant to the terms of the ESOS, an adjustment was required to be made to the exercise price and/or the number of shares falling to be issued upon exercise of the outstanding share options as a result of a rights issue. After the completion of the one for two rights issue in April 2006, the exercise price of the outstanding share options was adjusted from HK$7.29 per share to HK$6.35 per share on 14 June 2006 and there was no adjustment to the number of shares falling to be issued.

37. Share Option Scheme (Continued)

Particulars in relation to the ESOS of the Company that are required to be disclosed under Rules 17.07 to 17.09 of Chapter 17 of the Listing Rules and HKAS 19 "Employee Benefits" are as follows:

(a) Summary of the ESOS

Purpose	: To attract, retain and motivate talented eligible participants.
Participants	: Eligible participants include: (i) any employee and director of the Company or any subsidiary or any associate or controlling shareholder; (ii) any discretionary trust whose discretionary objects include person(s) belonging to the aforesaid participants; (iii) a company beneficially owned by person(s) belonging to the aforesaid participants; and (iv) any business partner, agent, consultant, representative, customer or supplier of any member of the Group or controlling shareholder determined by the board of directors as having contributed or may contribute to the development and growth of the Group.
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of this annual report	: 109,389,661 ordinary shares which represent 9.96% of the issued share capital.
Maximum entitlement of each participant	: Shall not exceed 1% of the ordinary shares of the Company in issue in the 12-month period up to and including the date of grant.
Period within which the ordinary shares must be taken up under an option	: Exercisable within open exercise periods determined by the board of directors within 10 years from the commencement date on which the option is granted and accepted.
Amount payable on acceptance	: HK$1.00

Notes to Financial Statements

37. Share Option Scheme (Continued)

(a) Summary of the ESOS (Continued)

Basis of determining the exercise price	: Determined by the directors at their discretion based on the highest of: (i) the closing price of the ordinary shares on the Stock Exchange at the offer date; (ii) the average closing price of the ordinary shares on the Stock Exchange for 5 business days immediately preceding the offer date; and (iii) the nominal value of an ordinary share.
Vesting condition	: Nil, subject to open exercise periods to be determined by the board of directors or the Share Option Committee.
The remaining life of the ESOS	: The ESOS expired on 27 February 2012.

(b) Movement of share options

	2012 Number of share options				
Name	**Outstanding at the beginning of the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding at the end of the year**	**Exercise price HK$**
Directors					
Tan Yoke Kong	**1,318,000**	**–**	**–**	**1,318,000**	**6.35**
Lee Huat Oon	**3,170,000**	**–**	**–**	**3,170,000**	**6.35**
Tan Sri Dato' Sri Tay Ah Lek	**1,230,000**	**–**	**–**	**1,230,000**	**6.35**
Dato' Chang Kat Kiam	**1,380,000**	**–**	**–**	**1,380,000**	**6.35**
Lee Chin Guan	**350,000**	**–**	**–**	**350,000**	**6.35**
Employees working under "continuous contracts" for the purposes of the Employment Ordinance other than the directors as disclosed above	**18,965,000**	**–**	**1,038,000**	**17,927,000**	**6.35**
	26,413,000	**–**	**1,038,000**	**25,375,000**	**6.35**

37. Share Option Scheme (Continued)

(b) Movement of share options (Continued)

Name	2011 Number of share options Outstanding at the beginning of the year	Exercised during the year	Lapsed during the year	Outstanding at the end of the year	Exercise price HK$
Directors					
Tan Yoke Kong	1,318,000	–	–	1,318,000	6.35
Lee Huat Oon	3,170,000	–	–	3,170,000	6.35
Tan Sri Dato' Sri Tay Ah Lek	1,230,000	–	–	1,230,000	6.35
Dato' Chang Kat Kiam	1,380,000	–	–	1,380,000	6.35
Lee Chin Guan	350,000	–	–	350,000	6.35
Employees working under "continuous contracts" for the purposes of the Employment Ordinance other than the directors as disclosed above	21,061,000	–	2,096,000	18,965,000	6.35
	28,509,000	–	2,096,000	26,413,000	6.35

Notes:

(i) The share options are only exercisable at the exercise price of HK$6.35 per share during certain periods as notified by the board of directors or the Share Option Committee to each grantee which it may in its absolute discretion determine from 10 June 2005 to 9 June 2015.

(ii) There was no open exercise period during the years 2012 and 2011.

(iii) There were no options granted or cancelled during the years 2012 and 2011.

(iv) The remaining contractual life of the 25,375,000 (2011: 26,413,000) outstanding options was 2.44 (2011: 3.44) years as at 31 December 2012.

(v) The share options outstanding as at the end of 2012 and 2011 could only be exercised in future open exercise periods.

(c) Had all the outstanding share options been fully exercised on 31 December 2012, the last trading date of 2012, the Group would have received proceeds of HK$161,131,250 (2011: HK$167,722,550). The market value of the shares issued based on the closing price of HK$3.66 (2011: HK$3.47) per share on that date would have been HK$92,872,500 (2011: HK$91,653,110). The directors and employees concerned under the ESOS would have made no gain from the exercise of the share options (2011: Nil).

Notes to Financial Statements

38. Employee Share-Based Compensation Reserve

	Group 2012 HK$'000	2011 HK$'000
Employee share option benefits	**45,765**	45,765

There was no movement in the reserve for the years ended 31 December 2012 and 2011.

39. Reserves

Group

	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Employee share-based compensation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000 (Restated)	Translation reserve HK$'000	Total HK$'000 (Restated)
At 1 January 2011 as previously reported	4,013,296	829	96,116	45,765	322,324	1,429,050	48,185	5,955,565
Impact of change in accounting policy (Note 5)	–	–	–	–	–	8,889	–	8,889
At 1 January 2011 (Restated)	4,013,296	829	96,116	45,765	322,324	1,437,939	48,185	5,964,454
Profit for the year as previously reported	–	–	–	–	–	374,869	–	374,869
Impact of change in accounting policy (Note 5)	–	–	–	–	–	1,096	–	1,096
Profit for the year (Restated)	–	–	–	–	–	375,965	–	375,965
Other comprehensive income	–	–	–	–	–	–	17,240	17,240
Transfer from retained profits	–	–	–	–	86,171	(86,171)	–	–
Dividends for 2011 (Note 16)	–	–	–	–	–	(175,667)	–	(175,667)
At 31 December 2011 (Restated)	4,013,296	829	96,116	45,765	408,495	1,552,066	65,425	6,181,992
At 1 January 2012 as previously reported	**4,013,296**	**829**	**96,116**	**45,765**	**408,495**	**1,542,081**	**65,425**	**6,172,007**
Impact of change in accounting policy (Note 5)	**-**	**-**	**-**	**-**	**-**	**9,985**	**-**	**9,985**
At 1 January 2012 (Restated)	**4,013,296**	**829**	**96,116**	**45,765**	**408,495**	**1,552,066**	**65,425**	**6,181,992**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**381,571**	**-**	**381,571**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**5,646**	**5,646**
Transfer from retained profits	**-**	**-**	**-**	**-**	**872**	**(872)**	**-**	**-**
Dividends for 2012 (Note 16)	**-**	**-**	**-**	**-**	**-**	**(153,708)**	**-**	**(153,708)**
At 31 December 2012	**4,013,296**	**829**	**96,116**	**45,765**	**409,367**	**1,779,057**	**71,071**	**6,415,501**

39. Reserves (Continued)

Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Employee share–based compensation reserve HK$'000	Retained profits HK$'000 (Restated)	Total HK$'000 (Restated)
At 1 January 2011 as previously reported	4,013,344	829	194,176	45,765	1,100,078	5,354,192
Impact of change in accounting policy (Note 5)	–	–	–	–	27,719	27,719
At 1 January 2011 (Restated)	4,013,344	829	194,176	45,765	1,127,797	5,381,911
Profit for the year as previously reported	–	–	–	–	225,462	225,462
Impact of change in accounting policy (Note 5)	–	–	–	–	4,896	4,896
Profit for the year (Restated)	–	–	–	–	230,358	230,358
Dividends for 2011 (Note 16)	–	–	–	–	(175,667)	(175,667)
At 31 December 2011 (Restated)	4,013,344	829	194,176	45,765	1,182,488	5,436,602
At 1 January 2012 as previously reported	**4,013,344**	**829**	**194,176**	**45,765**	**1,149,873**	**5,403,987**
Impact of change in accounting policy (Note 5)	**–**	**–**	**–**	**–**	**32,615**	**32,615**
At 1 January 2012 (Restated)	**4,013,344**	**829**	**194,176**	**45,765**	**1,182,488**	**5,436,602**
Profit for the year	**–**	**–**	**–**	**–**	**627,036**	**627,036**
Dividends for 2012 (Note 16)	**–**	**–**	**–**	**–**	**(153,708)**	**(153,708)**
At 31 December 2012	**4,013,344**	**829**	**194,176**	**45,765**	**1,655,816**	**5,909,930**

Notes to Financial Statements

39. Reserves (Continued)

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation in September 1991 over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation in September 1991 over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, a company may make distributions to its shareholders out of the contributed surplus under certain circumstances.

Deducted from the contributed surplus of the Group as at 31 December 2012 was positive goodwill of HK$98,406,000 (2011: HK$98,406,000), which arose from the acquisition of certain subsidiaries in prior years.

Note:

In accordance with the HKMA's guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reporting" (the "Guideline"), the Group's regulatory reserve and collective impairment allowances were included as supplementary capital in the Group's capital base at 31 December 2012 as defined in the Guideline. The regulatory reserve was held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to the Guideline from the HKMA.

40. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties in note 23 under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

As at 31 December 2012 and 2011, the Group and the Company had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**6,546**	8,002	**15,763**	44,446
In the second to fifth years, inclusive	**2,779**	2,805	**2,318**	12,680
	9,325	10,807	**18,081**	57,126

(b) As lessee

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

As at 31 December 2012 and 2011, the Group and the Company had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**48,135**	42,606	**–**	–
In the second to fifth years, inclusive	**27,956**	32,350	**–**	–
	76,091	74,956	**–**	–

41. 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 year:

Group

	2012				
	Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	200,808	200,808	52,922	–	–
Transaction-related contingencies	10,909	5,454	3,785	–	–
Trade-related contingencies	99,942	19,989	17,223	–	–
Forward forward deposits placed	74,218	74,218	14,844	–	–
Forward asset purchases	2,806	2,806	561	–	–
	388,683	303,275	89,335	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	142,582	489	1	317	135
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	181,353	90,676	90,676	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,242,637	–	–	–	–
	3,955,255	394,440	180,012	317	135
Capital commitments contracted for, but not provided in the financial statements	5,925				

Notes to Financial Statements

41. Off-Balance Sheet Exposure (Continued)

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

Group

	2011				
	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	184,720	184,720	24,824	–	–
Transaction-related contingencies	19,554	9,777	272	–	–
Trade-related contingencies	152,314	30,463	28,166	–	–
Forward forward deposits placed	66,200	66,200	13,240	–	–
Forward asset purchases	5,233	5,233	1,047	–	–
	428,021	296,393	67,549	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	906,270	10,458	92	3,220	2,051
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	134,394	67,197	67,197	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,054,708	–	–	–	–
	4,523,393	374,048	134,838	3,220	2,051
Capital commitments contracted for, but not provided in the financial statements	11,264				

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 Banking (Capital) Rules and guidelines issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments and from 0% to 50% for exchange rate contracts.

At 31 December 2012 and 2011, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

41. Off-Balance Sheet Exposure (Continued)

(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 foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

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

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

Notes to Financial Statements

42. Related Party Transactions

During the year, the Group had the following major transactions with related parties which were carried out on essentially the same terms and/or at prevailing market rates with other customers or suppliers:

	Notes	Group 2012 HK$'000	Group 2011 HK$'000
Related party transactions included in the consolidated income statement:			
Interest income from the ultimate holding company	(a)	**–**	2
Interest paid and payable to fellow subsidiaries	(b)	**21,333**	18,032
Deposit interests and commitment fees paid to the ultimate holding company	(b)&(g)	**4,646**	5,924
Service fees paid to a fellow subsidiary	(h)	**97**	–
Key management personnel compensation:	(c)		
– short term employee benefits		**7,940**	7,639
– post-employment benefits		**433**	409
		8,373	8,048
Interest income received from key management personnel	(d)	**6**	12
Interest expense paid to key management personnel	(b)	**25**	3
Commission income from key management personnel	(e)	**21**	15
Post-employment benefits for employees other than key management personnel	(f)	**18,520**	17,837

	Notes	Group 2012 HK$'000	Group 2011 HK$'000
Related party transactions included in the consolidated statement of financial position:			
Cash and short term funds with the ultimate holding company	(a)	**84**	6,291
Deposits from the ultimate holding company, fellow subsidiaries and an affiliated company	(b)	**1,400,956**	1,909,275
Bank loan from a fellow subsidiary	(b)	**698,000**	700,000
Interest payable to the ultimate holding company, fellow subsidiaries and an affiliated company	(b)	**332**	813
Loans to key management personnel	(d)	**368**	540
Deposits from key management personnel	(b)	**3,027**	3,867

42. Related Party Transactions (Continued)

Notes:

(a) The Group placed deposits with Public Bank, the ultimate holding company, at prevailing market rates. Interest income was received/ receivable by the Group for the last year from Public Bank in respect of the placements which was included in cash and short term placements in the consolidated statement of financial position.

(b) The ultimate holding company, fellow subsidiaries, an affiliated company and key management personnel placed deposits with the Group at the prevailing market rates. Interest expense/payables were paid by the Group for the year in respect of these placements. The balances were included in customer deposits in the consolidated statement of financial position. Interest paid and payable to Public Bank (L) Ltd, a fellow subsidiary, included interest on loans granted to the Group.

(c) Further details of the post-employment benefits and directors' remuneration are included in notes 10 and 12 to the financial statements, respectively.

(d) The balance represented a mortgage loan granted to a director of Public Finance and credit card receivables due from directors of Public Bank (Hong Kong). Interest income was received in respect of the mortgage loan.

(e) Commission income was received from key management personnel of the Group for securities dealings through the Group companies.

(f) The Group's post-employment benefit plan for the benefits of employees was detailed in note 10 to the financial statements.

(g) During the year, commitment fees were paid to Public Bank in order to obtain standby facilities from Public Bank to Public Bank (Hong Kong) and Public Finance.

(h) During the year, Public Securities Limited paid services fees to Public Investment Bank Berhad, a fellow subsidiary, for referral of stockbroking business.

In addition, certain banking facilities of the Group are supported by letters of comfort issued by the ultimate holding company.

Notes to Financial Statements

43. Fair Value of Financial Instruments

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

Group

	2012			2011		
	Carrying value HK$'000	**Fair value HK$'000**	**Unrecognised loss HK$'000**	Carrying value HK$'000	Fair value HK$'000	Unrecognised loss HK$'000
Financial assets						
Cash and short term placements	**3,951,468**	**3,951,468**	**–**	4,575,282	4,575,282	–
Placements with banks and financial institutions maturing after one month but not more than twelve months	**873,951**	**873,951**	**–**	513,527	513,527	–
Derivative financial instruments	**317**	**317**	**–**	3,220	3,220	–
Loans and advances and receivables	**27,169,503**	**27,169,503**	**–**	27,575,499	27,575,499	–
Available-for-sale financial assets	**6,804**	**6,804**	**–**	6,804	6,804	–
Held-to-maturity investments	**4,556,217**	**4,555,365**	**(852)**	3,421,503	3,421,169	(334)
Other assets	**131,331**	**131,331**	**–**	90,161	90,161	–
Financial liabilities						
Deposits and balances of banks and other financial institutions at amortised cost	**538,296**	**538,296**	**–**	1,246,092	1,246,092	–
Derivative financial instruments	**135**	**135**	**–**	2,051	2,051	–
Customer deposits at amortised cost	**29,374,122**	**29,374,122**	**–**	28,334,785	28,334,785	–
Certificates of deposit issued at amortised cost	**649,833**	**649,833**	**–**	513,315	513,315	–
Unsecured bank loans at amortised cost	**2,960,437**	**2,960,437**	**–**	2,960,734	2,960,734	–
Other liabilities	**340,744**	**340,744**	**–**	444,402	444,402	–
Total unrecognised loss			**(852)**			(334)

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

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which have not been recorded at fair value in the financial statements:

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

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

Fixed rate financial instruments

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

43. Fair Value of Financial Instruments (Continued)

(b) Determination of fair value and fair value hierarchy

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

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

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

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

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

	2012			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets:				
Derivative financial instruments	**–**	**317**	**–**	**317**
Available-for-sale financial assets	**–**	**–**	**6,804**	**6,804**
	–	**317**	**6,804**	**7,121**
Financial liabilities:				
Derivative financial instruments	**–**	**135**	**–**	**135**

	2011			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets:				
Derivative financial instruments	–	3,220	–	3,220
Available-for-sale financial assets	–	–	6,804	6,804
	–	3,220	6,804	10,024
Financial liabilities:				
Derivative financial instruments	–	2,051	–	2,051

Notes to Financial Statements

43. Fair Value of Financial Instruments (Continued)

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

The movements in fair value measurement in Level 3 during the year are as follows:

	2012 **HK$'000**	2011 HK$'000
Available-for-sale financial assets:		
At 1 January	**6,804**	6,804
Impairment allowance written back in relation to the Lehman Brothers Minibonds repurchased recognised in the consolidated income statement	**–**	34,157
Disposals	**–**	(34,157)
At 31 December	**6,804**	6,804

For the years ended 31 December 2012 and 2011, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

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

There were no financial assets and financial liabilities that offset against each other as at 31 December 2012 and 2011.

44. 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. The Group's contractual undiscounted repayment obligations are shown in the sub-section "Liquidity risk management" in note 45 to the financial statements.

Group

	2012							
	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	708,553	3,242,915	–	–	–	–	–	3,951,468
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	651,076	222,875	–	–	–	873,951
Loans and advances and receivables	661,247	1,013,130	1,204,691	3,557,492	6,962,883	13,746,310	175,572	27,321,325
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	1,103,708	1,052,681	2,343,085	56,743	–	–	4,556,217
Other assets	73	86,035	1,048	1,655	–	–	42,520	131,331
Foreign exchange contracts (gross)	–	116,591	5,068	20,923	–	–	–	142,582
Total financial assets	1,369,873	5,562,379	2,914,564	6,146,030	7,019,626	13,746,310	224,896	36,983,678
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	39,866	258,430	90,000	150,000	–	–	–	538,296
Customer deposits at amortised cost	6,206,734	9,568,395	9,375,385	3,808,813	414,795	–	–	29,374,122
Certificates of deposit issued at amortised cost	–	–	–	449,959	199,874	–	–	649,833
Unsecured bank loans at amortised cost	–	48,000	–	2,046,661	865,776	–	–	2,960,437
Other liabilities	83	116,029	22,317	26,435	12,452	–	163,428	340,744
Foreign exchange contracts (gross)	–	116,524	5,056	20,820	–	–	–	142,400
Total financial liabilities	6,246,683	10,107,378	9,492,758	6,502,688	1,492,897	–	163,428	34,005,832

Notes to Financial Statements

44. Maturity Analysis of Financial Assets and Financial Liabilities (Continued)

Group

	2011							
	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	1,030,256	3,545,026	–	–	–	–	–	4,575,282
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	310,526	203,001	–	–	–	513,527
Loans and advances and receivables	484,465	961,726	1,819,034	3,250,393	8,048,363	13,084,580	122,909	27,771,470
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	2,597,828	811,216	9,991	2,468	–	–	3,421,503
Other assets	143	56,528	667	1,930	–	–	30,893	90,161
Foreign exchange contracts (gross)	–	783,428	80,699	42,143	–	–	–	906,270
Total financial assets	1,514,864	7,944,536	3,022,142	3,507,458	8,050,831	13,084,580	160,606	37,285,017
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	48,414	935,062	167,616	95,000	–	–	–	1,246,092
Customer deposits at amortised cost	6,070,069	10,514,240	8,982,624	2,665,694	102,158	–	–	28,334,785
Certificates of deposit issued at amortised cost	–	–	413,845	99,470	–	–	–	513,315
Unsecured bank loans at amortised cost	–	–	–	1,498,074	1,462,660	–	–	2,960,734
Other liabilities	1,727	192,375	35,695	15,693	4,902	–	194,010	444,402
Foreign exchange contracts (gross)	–	782,021	80,849	42,231	–	–	–	905,101
Total financial liabilities	6,120,210	12,423,698	9,680,629	4,416,162	1,569,720	–	194,010	34,404,429

45. Financial Risk Management Objectives and Policies

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

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

The main risks arising from the Group's financial instruments are market risk, credit risk, liquidity risk and operational risk. The board reviews and approves policies for managing each of these risks and they are summarised below.

45. Financial Risk Management Objectives and Policies (Continued)

Risk management

The Group has established systems, policies and procedures for the control and monitoring of interest rate, foreign currency price, credit, liquidity, capital, market and operational risks, which are approved and endorsed by the board of directors and reviewed regularly by the Group's management, Risk Management Committee, Credit Risk Management Committee, Credit Committee, Assets and Liabilities Management Committee, Operational Risk Management Committee and other designated committees or working groups. Material risks are identified and assessed by designated committees and/or working groups before the launch of new products or business activities, and are monitored, documented and controlled against applicable risk limits after the introduction of new products or services or implementation of new business activities. Internal auditors of the Group also perform regular audits to ensure compliance with the policies and procedures.

Market risk management

(a) Interest rate risk

Interest rate risk is the risk that the Group's position may be adversely affected by a change of market interest rates. The Group's interest rate risk arises primarily from the timing difference in the maturity and the repricing of the Group's interest-bearing assets, liabilities and off-balance sheet commitments. The primary objective of interest rate risk management is to limit the potential adverse effects of interest rate movements in net interest income by closely monitoring the net repricing gap of the Group's assets and liabilities. Interest rate risk is daily managed by the Group's Treasury Department and monitored and measured by the Assets and Liabilities Management Committees of Public Bank (Hong Kong) and Public Finance against limits approved by the respective boards of directors.

Interest rate risk exposures in the banking book:

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

Repricing risk is one of the sources of interest rate risk which arises from timing differences in interest rate changes and cash flows that occur in the repricing and maturity of fixed and floating rate assets, liabilities and off-balance sheet financial instruments. Should the interest rate increase/decrease by 200 basis points and the positive net interest gap be HK$1,646 million (2011: HK$1,202 million) up to 12 months in 2012, profit before tax in 2012 would increase/decrease by HK$56 million or 0.86% of equity (2011: HK$48 million or 0.77% of equity). Profit before tax would increase/decrease by HK$49 million or 0.75% of equity (2011: HK$54 million or 0.85% of equity) for the next 12 months after the reporting date.

Based on the positive net interest gap of HK$3,238 million (2011: HK$3,035 million) up to five years, the economic value would increase by HK$51 million (2011: HK$42 million).

Basis risk is one of the sources of interest rate risk which arises from the difference in the changes of interest rates earned and paid on different financial instruments with similar repricing characteristics. The Group adopts two stress-testing scenarios for the sensitivity analysis:

(i) Interest rates on managed-rate assets would decrease by 200 basis points whilst interest rates on other interest-bearing assets and interest-bearing liabilities would be kept unchanged. Based on this scenario assumption, profit before tax would decrease by HK$245 million or 3.76% of equity (2011: HK$225 million or 3.58% of equity) for the year ended 31 December 2012. Profit before tax would decrease by HK$275 million or 4.21% of equity (2011: HK$236 million or 3.76% of equity) for the next 12 months after the reporting date.

(ii) Interest rates on interest-bearing assets and liabilities, except for interest rates on fixed rate assets and managed-rate assets, would increase by 200 basis points. Based on this scenario assumption, profit before tax would decrease by HK$367 million or 5.63% of equity (2011: HK$354 million or 5.63% of equity) for the year ended 31 December 2012. Profit before tax would decrease by HK$381 million or 5.84% of equity (2011: HK$349 million or 5.56% of equity) for the next 12 months after the reporting date.

Notes to Financial Statements

45. Financial Risk Management Objectives and Policies (Continued)

Market risk management (Continued)

(a) Interest rate risk (Continued)

The carrying amounts, or notional amounts if applicable, of financial instruments exposed to interest rate risk based on the earlier of maturity dates and contractual repricing as at 31 December 2012 and 2011 are detailed as follows:

Group

	2012							
	1 year or less HK$'000	Over 1 year but not more than 2 years HK$'000	Over 2 years but not more than 3 years HK$'000	Over 3 years but not more than 4 years HK$'000	Over 4 years but not more than 5 years HK$'000	Over 5 years HK$'000	Non-interest-bearing HK$'000	Total HK$'000
Assets:								
Fixed rate financial assets								
Cash and short term placements	3,242,916	–	–	–	–	–	708,552	3,951,468
Placements with banks and financial institutions maturing after one month but not more than twelve months	873,951	–	–	–	–	–	–	873,951
Derivative financial instruments	–	–	–	–	–	–	317	317
Loans and advances and receivables	2,328,371	1,025,235	613,402	257,842	54,128	71,441	132,074	4,482,493
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	4,210,452	14,586	42,157	–	–	–	–	4,267,195
	10,655,690	1,039,821	655,559	257,842	54,128	71,441	847,747	13,582,228
Floating rate financial assets								
Loans and advances and receivables	22,708,645	–	–	–	–	–	130,187	22,838,832
Held-to-maturity investments	289,022	–	–	–	–	–	–	289,022
	22,997,667	–	–	–	–	–	130,187	23,127,854
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	498,430	–	–	–	–	–	39,866	538,296
Certificates of deposit issued at amortised cost	449,959	–	–	–	–	–	–	449,959
Derivative financial instruments	–	–	–	–	–	–	135	135
Customer deposits at amortised cost	22,761,097	409,798	1,993	2,958	46	–	–	23,175,892
	23,709,486	409,798	1,993	2,958	46	–	40,001	24,164,282
Floating rate financial liabilities								
Customer deposits at amortised cost	5,137,637	–	–	–	–	–	1,060,593	6,198,230
Certificates of deposit issued at amortised cost	199,874	–	–	–	–	–	–	199,874
Unsecured bank loans at amortised cost	2,960,437	–	–	–	–	–	–	2,960,437
	8,297,948	–	–	–	–	–	1,060,593	9,358,541
Total interest sensitivity gap	1,645,923	630,023	653,566	254,884	54,082	71,441	(122,660)	3,187,259

45. Financial Risk Management Objectives and Policies (Continued)

Market risk management (Continued)

(a) Interest rate risk (Continued)

Group

	2011							
	1 year or less HK$'000	Over 1 year but not more than 2 years HK$'000	Over 2 years but not more than 3 years HK$'000	Over 3 years but not more than 4 years HK$'000	Over 4 years but not more than 5 years HK$'000	Over 5 years HK$'000	Non-interest-bearing HK$'000	Total HK$'000
Assets:								
Fixed rate financial assets								
Cash and short term placements	3,545,026	–	–	–	–	–	1,030,256	4,575,282
Placements with banks and financial institutions maturing after one month but not more than twelve months	513,527	–	–	–	–	–	–	513,527
Derivative financial instruments	–	–	–	–	–	–	3,220	3,220
Loans and advances and receivables	2,315,350	1,051,257	593,197	245,499	42,933	63,677	132,801	4,444,714
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	3,419,035	2,468	–	–	–	–	–	3,421,503
	9,792,938	1,053,725	593,197	245,499	42,933	63,677	1,173,081	12,965,050
Floating rate financial assets								
Loans and advances and receivables	23,232,472	–	–	–	–	–	94,284	23,326,756
Held-to-maturity investments	–	–	–	–	–	–	–	–
	23,232,472	–	–	–	–	–	94,284	23,326,756
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	1,197,678	–	–	–	–	–	48,414	1,246,092
Certificates of deposit issued at amortised cost	513,315	–	–	–	–	–	–	513,315
Derivative financial instruments	–	–	–	–	–	–	2,051	2,051
Customer deposits at amortised cost	22,368,157	91,677	7,343	204	2,934	–	–	22,470,315
	24,079,150	91,677	7,343	204	2,934	–	50,465	24,231,773
Floating rate financial liabilities								
Customer deposits at amortised cost	4,783,568	–	–	–	–	–	1,080,902	5,864,470
Unsecured bank loans at amortised cost	2,960,734	–	–	–	–	–	–	2,960,734
	7,744,302	–	–	–	–	–	1,080,902	8,825,204
Total interest sensitivity gap	1,201,958	962,048	585,854	245,295	39,999	63,677	135,998	3,234,829

Notes to Financial Statements

45. Financial Risk Management Objectives and Policies (Continued)

Market risk management (Continued)

(a) Interest rate risk (Continued)

The table below summarises the effective average interest rates as at 31 December for monetary financial instruments:

	Group	
	2012 Rate %	2011 Rate %
Assets		
Cash and short term placements	**0.98**	1.00
Placements with banks and financial institutions	**1.57**	4.74
Loans and advances and receivables (including trade bills)	**5.71**	5.50
Held-to-maturity investments	**1.05**	1.66
Liabilities		
Deposits and balances of banks and other financial institutions at amortised cost	**0.66**	0.79
Customer deposits at amortised cost	**1.13**	1.44
Certificates of deposit issued at amortised cost	**1.45**	1.06
Unsecured bank loans at amortised cost	**1.52**	1.73

(b) Currency risk

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

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

At 31 December 2012, if RMB had strengthened or weakened by 100 basis points against HKD with all other variables held constant, the Group's equity would have increased or decreased by HK$6 million (2011: HK$6 million) mainly as a result of foreign exchange impact arising from net structural position of RMB denominated operating capital.

45. Financial Risk Management Objectives and Policies (Continued)

Market risk management (Continued)

(c) Price risk

Price risk is the risk to the Group's earnings and capital due to changes in the prices of securities, including commodities, debt securities and equities.

The Group monitors price risk principally by limits established for transactions and open positions. These limits are reviewed and approved by the board of directors and are monitored on a daily basis.

The Group did not actively trade in financial instruments and in the opinion of the directors, the price risk related to trading activities to which the Group was exposed was not material. Accordingly, no quantitative market risk disclosures for price risk have been made.

Credit risk management

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

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

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

Credit and compliance audits are periodically conducted by Internal Audit Department to evaluate the effectiveness of the credit review, approval and monitoring processes and to ensure that the established credit policies and procedures are complied with.

Credit Committees of Public Bank (Hong Kong) 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 information systems and reports. Loan borrowers subject to legal proceedings, negative comments from other counterparties and rescheduled arrangements are put under watch lists or under the "special mention" grade for management oversight.

Notes to Financial Statements

45. Financial Risk Management Objectives and Policies (Continued)

Credit risk management (Continued)

Credit Committees of Public Bank (Hong Kong) and Public Finance also monitor the quality of past due or impaired financial assets by internal grading comprising "substandard", "doubtful" and "loss" accounts through the same meeting discussions, management information systems and reports. Impaired financial assets include those subject to personal bankruptcy petitions, corporate winding-up and rescheduled arrangements.

Credit Risk Management Committee is responsible for establishing the framework for identifying, measuring, monitoring and controlling the credit risk of existing and new products, and approving credit risk management policies and credit risk tolerance limits as and when necessary.

The Group mitigates credit risk by credit protection provided by guarantors and by loan collaterals 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 20 to the 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.

Maximum credit exposures for off-balance sheet items without taking into account the fair value of collateral are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Credit related contingent liabilities	**311,659**	356,588
Loan commitments and other credit related commitments	**3,423,990**	3,189,102

45. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk management

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

Assets and Liabilities Management Committees of Public Bank (Hong Kong) and Public Finance monitor the liquidity position as part of the ongoing management of assets and liabilities, and set up trigger limits to monitor liquidity risk. They also closely monitor the liquidity of the subsidiaries on a periodic basis to ensure that the liquidity structure of the subsidiaries' assets, liabilities and commitments can meet their funding needs, and that internal liquidity trigger limits are complied with. Standby facilities are maintained to provide liquidity to meet unexpected and material cash outflows in the ordinary course of business.

Maturity analysis of financial liabilities, based on the contractual undiscounted cash flows, is as follows:

Group

				2012				
	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
Forward assets purchase	–	2,806	–	–	–	–	–	2,806
Forward forward deposits placed	–	10,465	63,753	–	–	–	–	74,218
Foreign currency contracts (gross)	–	116,524	5,056	20,820	–	–	–	142,400
Credit related contingent liabilities	69,227	15,101	52,094	129,583	45,654	–	–	311,659
Loan commitments and other credit related commitments	2,587,830	594,982	56,301	32,591	152,286	–	–	3,423,990
Customer deposits at amortised cost	6,206,817	9,593,590	9,419,564	3,852,669	426,303	–	–	29,498,943
Deposits and balances of banks and other financial institutions at amortised cost	39,866	258,721	90,233	150,782	–	–	–	539,602
Certificates of deposit issued at amortised cost	–	–	–	456,307	204,438	–	–	660,745
Unsecured bank loans at amortised cost	–	50,415	–	2,059,571	870,000	–	–	2,979,986
Other liabilities	–	94,765	–	–	–	–	163,428	258,193
	8,903,740	10,737,369	9,687,001	6,702,323	1,698,681	–	163,428	37,892,542

Notes to Financial Statements

45. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk management (Continued)

Group

	2011							
	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
Forward assets purchase	–	5,233	–	–	–	–	–	5,233
Forward forward deposits placed	–	23,010	43,190	–	–	–	–	66,200
Foreign currency contracts (gross)	–	782,021	80,849	42,231	–	–	–	905,101
Credit related contingent liabilities	114,619	14,081	59,817	168,067	4	–	–	356,588
Loan commitments and other credit related commitments	2,527,659	491,434	35,615	–	134,394	–	–	3,189,102
Customer deposits at amortised cost	6,071,298	10,537,299	9,028,281	2,699,761	112,255	–	–	28,448,894
Deposits and balances of banks and other financial institutions at amortised cost	48,414	936,579	167,997	95,426	–	–	–	1,248,416
Certificates of deposit issued at amortised cost	–	–	417,184	100,000	–	–	–	517,184
Unsecured bank loans at amortised cost	–	–	–	1,515,979	1,510,094	–	–	3,026,073
Other liabilities	–	170,053	–	–	–	–	194,010	364,063
	8,761,990	12,959,710	9,832,933	4,621,464	1,756,747	–	194,010	38,126,854

Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, human and systems errors or from external events.

The Group has operational risk management function in place to identify, measure, monitor and control operational risk. Its Operational Risk Management Policy Manual defines the responsibilities of various committees, business units and supporting departments, and highlights key operational risk factors and categories with loss event types to facilitate the measurement and assessment of operational risks and their potential impact. Operational risk exposures are monitored by appropriate key risk indicators for tracking and escalation to management for providing early warning signals of increased operational risk or a breakdown in operational risk management. Regular operational risk management reports are received and consolidated from various parties and reported to the Operational Risk Management Committee for the monitoring and control of operational risk.

45. Financial Risk Management Objectives and Policies (Continued)

Capital management

Capital of the Group for regulatory and risk management purposes includes share capital, share premium, reserves, retained profits, regulatory reserve and subordinated debts, if any. Finance and Control Department is responsible for monitoring the amount of the capital base and capital adequacy ratio against trigger limits and for risk exposures, and ensuring compliance with relevant statutory limits, taking into account business growth, dividend payout and other relevant factors.

The 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 and core capital ratios

	2012	2011
Group:		
Consolidated capital adequacy ratio	**13.4%**	12.7%
Consolidated core capital ratio	**12.3%**	11.7%
Public Bank (Hong Kong):		
Consolidated capital adequacy ratio	**19.6%**	19.4%
Consolidated core capital ratio	**18.5%**	18.4%

46. Comparative Amounts

As further explained in note 5 to the financial statements, due to the adoption of revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment, and a third statement of financial position as at 1 January 2011 has been presented.

47. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 18 January 2013.

Supplementary Financial Information (Unaudited)

Advances to Customers by Industry Sectors

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

Group	31 December 2012								
	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	365,808	159	–	729	1,005	298,970	81.7	–	–
Building and construction, property development and investment									
Property development	504,755	189	–	–	–	245,758	48.7	–	–
Property investment	6,611,472	2,469	–	–	–	6,010,790	90.9	–	–
Civil engineering works	112,887	40	–	–	–	23,520	20.8	–	–
Electricity and gas	81	–	–	–	–	–	–	–	–
Recreational activities	3,838	1	–	–	–	3,807	99.2	–	–
Information technology	30,000	11	–	–	–	1,414	4.7	–	–
Wholesale and retail trade	188,894	82	104	196	78	164,504	87.1	148	148
Transport and transport equipment	4,217,977	1,383	391	57	68	4,154,635	98.5	494	285
Hotels, boarding houses and catering	350,981	131	–	–	–	51,508	14.7	–	–
Financial concerns	158,409	72	–	–	–	78,432	49.5	–	–
Stockbrokers									
Margin lending	34,917	13	–	13	–	32,417	92.8	–	–
Others	11,221	4	–	4	–	1,221	10.9	–	–
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	23,247	9	–	–	–	4,875	21.0	–	–
Others	15,622	6	–	–	–	14,624	93.6	–	–

Advances to Customers by Industry Sectors (Continued)

Group	31 December 2012								
	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
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	126,374	47	–	–	–	126,374	100.0	520	520
Loans for the purchase of other residential properties	7,509,974	2,617	–	42	–	7,403,639	98.6	893	–
Loans for credit card advances	14,529	5	124	311	199	–	–	144	41
Loans for other business purposes	4,901	2	–	1	–	3,621	73.9	–	–
Loans for other private purposes	3,967,806	16,977	92,118	488,704	479,984	164,771	4.2	134,943	96,448
Trade finance	520,474	194	–	–	26	413,064	79.4	–	–
Other loans and advances	121,028	45	–	270	270	101,655	84.0	–	–
Sub-total	24,895,195	24,456	92,737	490,327	481,630	19,299,599	77.5	137,142	97,442
Loans and advances for use outside Hong Kong	2,205,076	2,838	29,823	5,504	49,598	1,530,265	69.4	90,446	90,446
Total loans and advances (excluding trade bills and other receivables)	27,100,271	27,294	122,560	495,831	531,228	20,829,864	76.9	227,588	187,888

Supplementary Financial Information (Unaudited)

Advances to Customers by Industry Sectors (Continued)

Group	31 December 2011								
	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	556,884	332	281	196	970	486,341	87.3	281	281
Building and construction, property development and investment									
Property development	491,638	281	–	–	–	42,890	8.7	–	–
Property investment	6,174,634	3,526	–	–	–	5,604,306	90.8	–	–
Civil engineering works	112,686	62	–	–	–	23,028	20.4	–	–
Electricity and gas	–	–	–	–	–	–	–	–	–
Recreational activities	1,788	1	–	–	–	1,737	97.1	–	–
Information technology	29,973	17	–	–	–	1,953	6.5	–	–
Wholesale and retail trade	104,614	69	–	84	89	91,146	87.1	–	–
Transport and transport equipment	4,105,536	2,059	538	314	1,931	4,033,749	98.3	572	365
Hotels, boarding houses and catering	335,292	192	–	–	–	36,002	10.7	–	–
Financial concerns	672,015	397	–	199	–	647,012	96.3	–	–
Stockbrokers									
Margin lending	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–	–
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	32,781	19	–	–	–	2,233	6.8	–	–
Others	31,898	18	–	–	–	31,898	100.0	–	–

Advances to Customers by Industry Sectors (Continued)

Group	31 December 2011								
	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
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	149,679	85	–	–	–	149,679	100.0	290	–
Loans for the purchase of other residential properties	7,984,157	4,267	–	–	–	7,909,549	99.1	2,208	2,208
Loans for credit card advances	16,764	10	41	455	428	–	–	41	41
Loans for other business purposes	1,607	1	–	1	–	841	52.3	–	–
Loans for other private purposes	3,980,569	11,925	89,785	455,106	456,596	178,454	4.5	134,057	99,662
Trade finance	480,696	275	–	393	12,838	368,078	76.6	–	–
Other loans and advances	96,732	55	–	–	–	79,953	82.7	–	–
Sub-total	25,359,943	23,591	90,645	456,748	472,852	19,688,849	77.6	137,449	102,557
Loans and advances for use outside Hong Kong	2,261,563	6,187	73,575	30,689	15,348	1,315,658	58.2	138,641	138,641
Total loans and advances (excluding trade bills and other receivables)	27,621,506	29,778	164,220	487,437	488,200	21,004,507	76.0	276,090	241,198

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

Supplementary Financial Information (Unaudited)

Non-Bank Mainland China Exposures

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

Group

	On-balance sheet exposure HK$'million	**Off-balance sheet exposure HK$'million**	**Total exposures HK$'million**	**Individual impairment allowances HK$'million**
As at 31 December 2012				
Mainland China entities	**1,301**	**40**	**1,341**	**30**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**436**	**44**	**480**	**–**
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland China exposures	**–**	**–**	**–**	**–**
	1,737	**84**	**1,821**	**30**

Group

	On-balance sheet exposure HK$'million	Off-balance sheet exposure HK$'million	Total exposures HK$'million	Individual impairment allowances HK$'million
As at 31 December 2011				
Mainland China entities	1,315	28	1,343	74
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	573	46	619	–
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland China exposures	–	–	–	–
	1,888	74	1,962	74

Cross-Border Claims

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

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

Group

	Banks and other financial institutions HK$'million	**Public sector entities HK$'million**	**Others HK$'million**	**Total HK$'million**
As at 31 December 2012				
1. Asia Pacific excluding Hong Kong,				
of which:	**4,318**	**252**	**536**	**5,106**
China	**1,720**	**252**	**234**	**2,206**
Malaysia	**932**	**–**	**72**	**1,004**
Japan	**854**	**–**	**3**	**857**
2. Western Europe, of which:	**2,081**	**–**	**135**	**2,216**
France	**1,253**	**–**	**–**	**1,253**

Group

	Banks and other financial institutions HK$'million	Public sector entities HK$'million	Others HK$'million	Total HK$'million
As at 31 December 2011				
1. Asia Pacific excluding Hong Kong,				
of which:	3,140	120	475	3,735
China	1,163	120	231	1,514
Malaysia	749	–	103	852
Japan	666	–	–	666
2. Western Europe	2,538	–	33	2,571

Supplementary Financial Information (Unaudited)

Currency Risk

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

Group

	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 2012						
USD	**2,983**	**2,957**	**51**	**70**	**7**	**–**
RMB	**231**	**252**	**–**	**1**	**(22)**	**622**
AUD	**958**	**967**	**10**	**5**	**(4)**	**–**
Others	**984**	**1,010**	**82**	**57**	**(1)**	**–**
	5,156	**5,186**	**143**	**133**	**(20)**	**622**

Group

	Spot assets HK$'million	Spot liabilities HK$'million	Forward purchases HK$'million	Forward sales HK$'million	Net short position HK$'million	Structural assets HK$'million
As at 31 December 2011						
RMB	907	963	–	–	(56)	617
Others	5,702	5,656	597	655	(12)	–
	6,609	6,619	597	655	(68)	617

Liquidity Ratios

	2012	2011
Average liquidity ratios for the year:		
Public Bank (Hong Kong)	**44.4%**	39.4%
Public Finance	**86.0%**	71.6%

The average liquidity ratios are computed on a solo basis using the arithmetic mean of each calendar month's average liquidity ratio as reported in the return relating to liquidity position submitted by Public Bank (Hong Kong) and Public Finance to the HKMA pursuant to Section 63 of the Banking Ordinance in respect of the year.

Capital Disclosures

The components of the Group's total capital base include the following items:

Group

	2012 HK$'000	2011 HK$'000
Core capital:		
Paid up ordinary share capital	109,792	109,792
Share premium account	4,013,296	4,013,296
Published reserves	1,512,207	1,332,447
Consolidated income statement	209,732	165,001
Deduct:		
Goodwill	(2,774,403)	(2,774,403)
Net deferred tax assets	–	–
Core capital before deductions	3,070,624	2,846,133
Less: Deductions from shareholdings in subsidiaries	(33,053)	(33,053)
Other deductions	(16,592)	(31,148)
Total core capital after deductions	3,020,979	2,781,932
Supplementary capital:		
Regulatory reserve	280,548	269,186
Collective impairment allowances	27,394	29,796
Supplementary capital before deductions	307,942	298,982
Less: Deductions from shareholdings in subsidiaries	(33,053)	(33,053)
Other deductions	(16,592)	(31,148)
Total supplementary capital after deductions	258,297	234,781
Capital base	3,279,276	3,016,713

Supplementary Financial Information (Unaudited)

Capital Disclosures (Continued)

The consolidated capital adequacy ratio of the Group is computed on a consolidated basis including the Company, Public Bank (Hong Kong) and Public Finance. The subsidiaries not included in the computation of the consolidated capital adequacy ratio of the Group are Public Bank (Nominees) Limited, Public Investments Limited, Public Realty Limited, Public Credit Limited, Public Futures Limited, Public Pacific Securities Limited, Public Financial Securities Limited, Public Financial Limited, Public Securities Limited, Public Securities (Nominees) Limited, Winton (B.V.I.) Limited, Winton Holdings (Hong Kong) Limited, Winton Financial Limited and Winton Motors, Limited. Deductions from the capital base include investments in subsidiaries and other exposures.

Group

	2012					
		Exposures*			Risk-weighted amounts	
Class of exposures	**Rated#**	**Unrated**	**Total**	**Rated**	**Unrated**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
On-balance sheet:						
Sovereign	2,075,191	–	2,075,191	–	–	–
Public sector entity	–	184,139	184,139	–	36,828	36,828
Bank	7,210,625	53,624	7,264,249	2,114,823	25,623	2,140,446
Securities firm	–	49,839	49,839	–	24,920	24,920
Corporate	–	6,502,922	6,502,922	–	6,502,922	6,502,922
Cash items	–	881,173	881,173	–	111,990	111,990
Regulatory retail	–	8,427,862	8,427,862	–	6,320,897	6,320,897
Residential mortgage	–	9,973,266	9,973,266	–	4,281,137	4,281,137
Past due exposures	–	117,695	117,695	–	176,304	176,304
Other non-past due exposures	–	1,976,252	1,976,252	–	1,976,252	1,976,252
Off-balance sheet:						
OTC derivative transactions						
– foreign exchange contracts	–	32,516	32,516	–	1	1
Other off-balance sheet items	–	3,812,673	3,812,673	–	180,011	180,011
	9,285,816	32,011,961	41,297,777	2,114,823	19,636,885	21,751,708

Capital Disclosures (Continued)

Group

	2011					
		Exposures*			Risk-weighted amounts	
Class of exposures	Rated#	Unrated	Total	Rated	Unrated	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
On-balance sheet:						
Sovereign	2,102,494	–	2,102,494	–	–	–
Public sector entity	–	222,914	222,914	–	44,583	44,583
Bank	6,235,642	5,682	6,241,324	1,404,870	1,136	1,406,006
Securities firm	–	9,647	9,647	–	4,824	4,824
Corporate	49,879	6,095,610	6,145,489	49,879	6,095,610	6,145,489
Cash items	–	1,060,837	1,060,837	–	161,485	161,485
Regulatory retail	–	8,559,587	8,559,587	–	6,419,691	6,419,691
Residential mortgage	–	10,529,716	10,529,716	–	4,614,978	4,614,978
Past due exposures	–	122,717	122,717	–	183,073	183,073
Other non-past due exposures	–	1,938,014	1,938,014	–	1,938,014	1,938,014
Off-balance sheet:						
OTC derivative transactions						
– foreign exchange contracts	–	837,689	837,689	–	92	92
Other off-balance sheet items	–	3,617,123	3,617,123	–	134,746	134,746
	8,388,015	32,999,536	41,387,551	1,454,749	19,598,232	21,052,981

The Group did not enter into OTC derivative transactions other than foreign exchange contracts with counterparties during 2012 and 2011. The credit exposures attributed to such transactions were considered insignificant.

* Principal amount or credit equivalent amount, net of individual impairment allowance before and after credit risk mitigation.

\# Exposures are rated by the Group's External Credit Assessment Institutions ("ECAI"), Moody's, with ECAI issue-specific ratings or with ECAI inferred ratings. Risk weights are determined based on ECAI ratings pursuant to the Banking (Capital) Rules.

Supplementary Financial Information (Unaudited)

Capital Disclosures (Continued)

Group

	2012 Risk-weighted exposures HK$'000	**2012** Capital requirements/ charge HK$'000	2011 Risk-weighted exposures HK$'000	2011 Capital requirements/ charge HK$'000
Credit risk	**21,751,708**	**1,740,137**	21,052,981	1,684,238
Market risk – foreign exchange exposures	**600,425**	**48,034**	561,838	44,947
Operational risk	**2,283,250**	**182,660**	2,303,775	184,302
Deduction	**(128,818)**	**–**	(139,310)	–
	24,506,565	**1,970,831**	23,779,284	1,913,487

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 Public Bank (Hong Kong) and Public Finance, respectively, for the years ended 31 December 2012 and 2011.

List of Properties

List of Properties Owned by the Group as at 31 December 2012

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (sq m)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 December 2012 (HK$'000)
Shop 7, Ground Floor Mei Hang Building Nos. 15/17, 21/25, 29/33, 37/41 & 45 Kai Man Path Tuen Mun New Territories Hong Kong	A shop unit on the ground floor of a 5-storey composite building	Public Finance's Tuen Mun Branch	Leasehold 149 Years	35 Years (30–6–2047)	39 Years	84	30–6–1980	1,271
Shop A, Ground Floor Kong Kai Building No. 184 Aberdeen Main Road Aberdeen Hong Kong	A shop unit on the ground floor of a 22-storey residential building built on a 2-storey commercial podium	Public Finance's Aberdeen Branch	Leasehold 999 Years	847 Years (26–12–2859)	23 Years	68	9–3–1990	3,836
Ground Floor Yue Yee Mansion No. 92 Shung Ling Street San Po Kong Kowloon Hong Kong	Ground floor of a 7-storey Chinese tenement building	Public Finance's San Po Kong Branch	Leasehold 149 Years	35 Years (30–6–2047)	48 Years	94	9–6–1990	2,135
Flat F, 29th Floor Pine Mansion Harbour View Gardens No. 26 Taikoo Wan Road Taikoo Shing Quarry Bay Hong Kong	A residential unit of a 30-storey residential building	Staff quarters for the Group	Leasehold 999 Years	887 Years (18–4–2899)	29 Years	91	31–12–2011	9,565
Units 1003-1005 10th Floor Fortress Tower No.250 King's Road North Point Hong Kong	3 office units on the 10th floor of a 20-storey office building built on a 4-storey commercial podium	Public Finance's IT Centre	Leasehold 150 Years	114 Years (26–8–2126)	29 Years	293	18–3–1992	7,621

List of Properties

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (sq m)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 December 2012 (HK$'000)
Apartment A on 14th Floor of Tower II and Car Parking Space Nos. 4 and 66 on 4th Level Regent on The Park No. 9A Kennedy Road Wanchai Hong Kong	A residential unit on the 14th floor of a 34-storey residential building	Staff quarters for the Group	Leasehold 150 Years	118 Years (19–10–2130)	27 Years	253	5–3–1993	8,764
Ground Floor & Open Yard No. 751 Nathan Road Mongkok Kowloon Hong Kong	Ground floor of a 14-storey composite building	Public Bank (Hong Kong)'s Prince Edward Branch	Leasehold 150 Years	67 Years (18–8–2079)	42 Years	130	24–5–1993	12,655
11th Floor Wing On House No. 71 Des Voeux Road Central Central Hong Kong	11th floor of a 31-storey office building built on a 2-storey podium	The Group's office	Leasehold 999 Years	890 Years (14–8–2902)	45 Years	1,464	11–6–1993	88,680
Shop B, Ground Floor and Office B 1st to 17th Floors JCG Building No. 16 Mongkok Road Mongkok Kowloon Hong Kong	A shop unit on the ground floor and all B units on the 1st to 17th floors of a 18-storey commercial building with shops and offices	Public Bank (Hong Kong)'s and Public Finance's Mongkok Branch; the Group's storeroom; office space leased to third parties	Leasehold 150 Years	38 Years (27–5–2050)	25 Years	2,215	30–6–1994 (R)	110,540
Flat F, 24th Floor Ngan Sing Mansion Sing Fai Terrace No. 1 Tai Fung Avenue Taikoo Shing Quarry Bay Hong Kong	A residential unit of a 26-storey residential building built on a podium	Staff quarters for the Group	Leasehold 999 Years	887 Years (18–4–2899)	28 Years	76	1–8–1995	4,511
Ground Floor Ruby Commercial Building No. 480 Nathan Road Yau Ma Tei Kowloon Hong Kong	Ground floor of a 16-storey commercial building	Public Finance's Nathan Road Branch	Leasehold 150 Years	55 Years (22–10–2067)	30 Years	110	14–1–2000	9,851

Location	**Description**	**Current Use**	**Tenure**	**Remaining Lease Period** (Expiry Date)	**Age of Property**	**Built-up Area** (sq m)	**Date of Last Revaluation/ Acquisition**	**Carrying Amount as at 31 December 2012** (HK$'000)
Shop Nos. 51 to 53 1st Floor Harbour Crystal Centre No. 100 Granville Road Tsimshatsui Kowloon Hong Kong	3 commercial units on the 1st floor of a 16-storey commercial building	Public Finance's Tsimshatsui Branch	Leasehold 150 Years	116 Years (10–12–2128)	30 Years	131	1–11–2000	2,309
Ground Floor Section B of Lot No. 3704 in DD120 Yuen Long New Territories Hong Kong	Ground floor of a 5-storey composite building	Public Finance's Yuen Long Branch	Leasehold 149 Years	35 Years (30–6–2047)	55 Years	102	23–4–2001	12,956
Shop A, Ground Floor Wing On House No. 71 Des Voeux Road Central Central Hong Kong	Ground floor of a 31-storey office building built on a 2-storey podium	Public Bank (Hong Kong)'s Central Branch	Leasehold 999 Years	890 Years (14–8–2902)	45 Years	113	15–10–2003	52,612
Workshops A, B and C Ground Floor and Flat E, 9th Floor Hung Cheong Factory Building No. 742-748 Cheung Sha Wan Road No. 3 Kwong Cheung Street Cheung Sha Wan Kowloon Hong Kong	3 workshop units on the ground floor and a unit on the 9th floor of a 12-storey industrial building	A portion of workshops on the ground floor is leased to third parties and another portion and whole Flat E on the 9th floor being occupied by the Group as office	Leasehold 149 Years	35 Years (27–6–2047)	47 Years	Workshops A, B and C 682 Flat E 68	24–7–1992 (R)	25,065
Workshops E1 and F1 10th Floor Hang Fung Industrial Building Phase 1 2G Hok Yuen Street Hunghom Kowloon Hong Kong	2 workshops on the 10th floor of a 13-storey industrial building	Occupied by the Group as storeroom	Leasehold 150 Years	35 Years (15–9–2047)	33 Years	962	24–7–1992	1,191

List of Properties

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (sq m)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 December 2012 (HK$'000)
11th Floor Argyle Centre, Phase 1 No. 688 Nathan Road No. 65 Argyle Street Mongkok Kowloon Hong Kong	Office space on the 11th floor of a 21-storey commercial building	The Group's office; office space leased to third parties	Leasehold 150 Years	48 Years (18–5–2060)	30 Years	1,465	2–5–1994 (R)	177,202
4th Floor 581 Nathan Road Mongkok Kowloon Hong Kong	4th floor of a 7-storey composite building with shops and residential flats	Leased to third parties	Leasehold 150 Years	25 Years (25–12–2037)	43 Years	55	14–6–1984 (R)	3,500
Unit 3, 5th Floor Telford House No. 16 Wang Hoi Road Kowloon Bay Kowloon Hong Kong	An office unit on the 5th floor of a 23-storey commercial building	Leased to third parties	Leasehold 149 Years	35 Years (30–6–2047)	18 Years	90	30–5–2006** (R)	8,695
Shop 3C, 1st Floor Telford House 16 Wang Hoi Road Kowloon Bay Kowloon Hong Kong	A shop unit on the 1st floor of a 23-storey commercial building	Leased to third parties	Leasehold 149 Years	35 Years (30–6–2047)	18 Years	47	30–5–2006** (R)	19,758
Ground Floor 17 South Wall Road and the whole block of 19 South Wall Road Kowloon Hong Kong	A shop unit on the ground floor of a 5-storey tenement block and the whole block of a 5-storey tenement block	Public Bank (Hong Kong)'s Kowloon City Branch on the ground floor; and another portion as Public Bank (Hong Kong)'s staff quarters	Leasehold 149 Years	35 Years (30–6–2047)	35 Years	432	30–5–2006**	16,297
Shop 5, Ground Floor Fu Ho Building Nos. 3–7 Kau Yuk Road Yuen Long New Territories Hong Kong	A shop unit on the ground floor of a 14-storey composite building	Public Bank (Hong Kong)'s Yuen Long Branch	Leasehold 149 Years	35 Years (30–6–2047)	33 Years	82	30–5–2006**	10,477

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (sq m)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 December 2012 (HK$'000)
Shop B, Ground Floor Victory Court Nos. 185–187 Castle Peak Road Tsuen Wan New Territories Hong Kong	A shop unit on the ground floor of a 14-storey composite building	Public Bank (Hong Kong)'s Tsuen Wan Branch	Leasehold 149 Years	35 Years (30–6–2047)	32 Years	149	30–5–2006**	11,225
Units 801, 808–812, Level 8 Metroplaza, Tower 2 No. 223 Hing Fong Road Kwai Fong New Territories Hong Kong	6 office units on level 8 of a 35-storey office building on a 9-storey commercial carpark podium	Public Bank (Hong Kong)'s Backup office, Personal Loan Centre and Direct Sales office	Leasehold 149 Years	35 Years (30–6–2047)	20 Years	527	30–5–2006**	19,373
Units 1–5, 24th Floor Luen Cheong Can Centre No. 8 Yip Wong Road Tuen Mun New Territories Hong Kong	5 industrial units on the 24th floor of a 26-storey industrial building	Public Bank (Hong Kong)'s warehouse	Leasehold 149 Years	35 Years (30–6–2047)	20 Years	1,053	30–5–2006**	2,162
Basement, Ground Floor 1st–12th Floors, Flats A & B on 14th Floor, 17th Floor Flat A on 19th Floor 21st Floor and Main Roof Public Bank Centre No. 120 Des Voeux Road Central Central Hong Kong	A shop unit on the ground floor and basement and office floors of a 23-storey commercial building	Public Bank (Hong Kong)'s Main Branch and administrative office	Leasehold 999 Years	830 Years (26–6–2842)	35 Years	5,451	30–5–2006**	245,900
Units 40–41, Ground Floor Hung Hom Commercial Centre Nos. 37–39 Ma Tau Wai Road Kowloon Hong Kong	2 shop units on the ground floor of a 14-storey commercial building	Public Bank (Hong Kong)'s Hung Hom Branch	Leasehold 149 Years	35 Years (15–9–2047)	30 Years	184	30–5–2006**	13,317

List of Properties

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (sq m)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 December 2012 (HK$'000)
Shop B1, Ground Floor Hong Kong Plaza Nos. 369–375 Des Voeux Road West Hong Kong	A shop unit on the ground floor of a 42-storey commercial building	Public Bank (Hong Kong)'s Shek Tong Tsui Branch	Leasehold 150 Years (for Lot No. 289)	42 Years (27–12–2054)	29 Years	180	30–5–2006**	13,224
			Leasehold 999 Years (for Lot No. 302)	890 Years (3–9–2902)				
Shop 1, on Level 1, Carrianna Friendship Square Renminnan Road/Chunfeng Road, Luohu District Shenzhen PRC	A shop unit on the ground floor of a 33-storey composite building	Public Bank (Hong Kong)'s Shenzhen Branch	Leasehold 50 Years	29 Years (17–12–2041)	15 Years	168	30–5–2006**	23,262
Shops Nos. 4, 5A, 5B, 6A and 6B on Level 1 of Shatin New Town, Nos.1–15 Wang Pok Street Shatin New Territories Hong Kong	5 shops on level 1 of a commercial podium under eight blocks of 22-storey residential buildings	Public Bank (Hong Kong) and Public Finance's Shatin Branch	Leasehold 149 Years	35 Years (30–6–2047)	29 Years	203	1–12–2008	41,893

Notes:

(R) Revaluation was conducted as at 31 December 2012.

** The acquisition date for those properties vested over from Public Bank (Hong Kong) is 30 May 2006.

The Group holds the land portion of all the properties above by means of leases in the HKSAR.