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

Interim Report **2013**

Public Financial Holdings Limited
Interim Report 2013

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

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Central, Hong Kong
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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

Condensed Consolidated Income Statement

	Notes	For the six months ended 30 June **2013** **(Unaudited)** **HK$'000**	 2012 (Unaudited) HK$'000
Interest income	6	**833,416**	818,278
Interest expense	6	**(162,964)**	(212,392)
NET INTEREST INCOME		**670,452**	605,886
Other operating income	7	**113,323**	110,249
OPERATING INCOME		**783,775**	716,135
Operating expenses	8	**(386,117)**	(369,825)
Changes in fair value of investment properties		**5,270**	17,520
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**402,928**	363,830
Impairment allowances for loans and advances and receivables	9	**(162,272)**	(155,345)
PROFIT BEFORE TAX		**240,656**	208,485
Tax	10	**(44,959)**	(35,703)
PROFIT FOR THE PERIOD		**195,697**	172,782
ATTRIBUTABLE TO:			
Owners of the Company		**195,697**	172,782
EARNINGS PER SHARE (HK$)	12		
Basic		**0.178**	0.157
Diluted		**0.178**	0.157

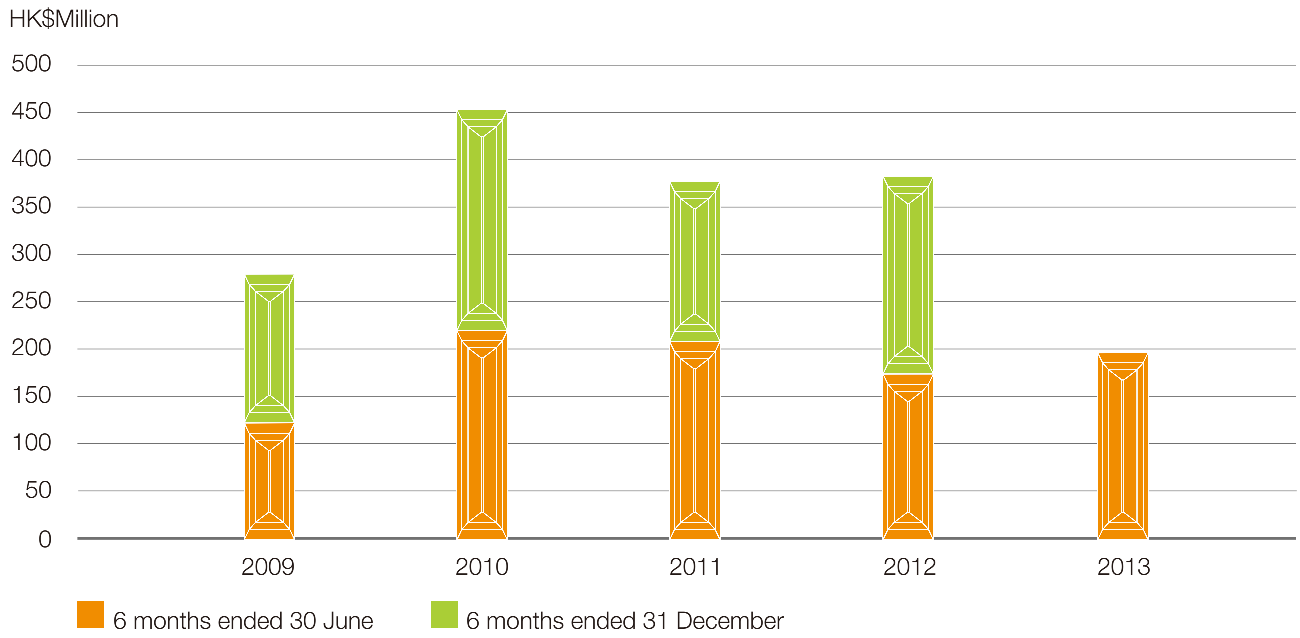
Details of interim dividends paid/payable are disclosed in note 11 to the interim financial statements.

Condensed Consolidated Statement of Comprehensive Income

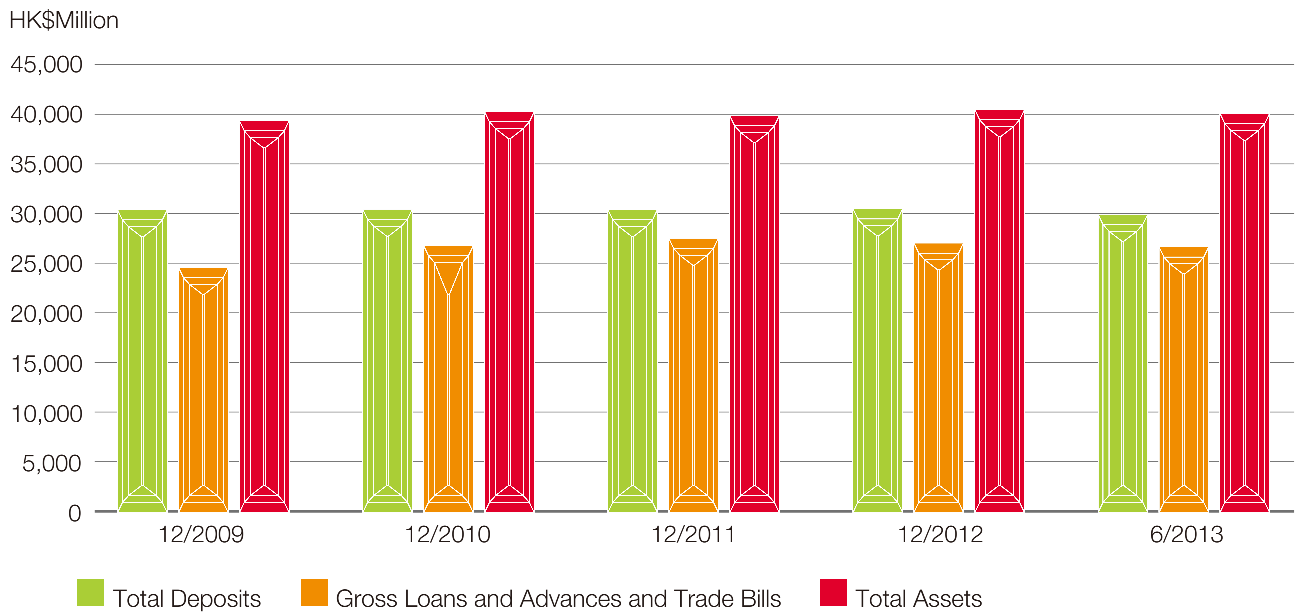
	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT FOR THE PERIOD	**195,697**	172,782
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Exchange gain/(loss) on translating foreign operations, net of tax	**9,554**	(5,920)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**205,251**	166,862
ATTRIBUTABLE TO:		
Owners of the Company	**205,251**	166,862

Five-year Financial Summary

Profit



Financial Position



Condensed Consolidated Statement of Financial Position

	Notes	**30 June 2013 (Unaudited) HK$'000**	31 December 2012 (Audited) HK$'000
ASSETS			
Cash and short term placements	13	**3,820,768**	3,951,468
Placements with banks and financial institutions maturing after one month but not more than twelve months	14	**622,967**	873,951
Derivative financial instruments		**9,988**	317
Loans and advances and receivables	15	**26,719,840**	27,169,503
Available-for-sale financial assets	16	**6,804**	6,804
Held-to-maturity investments	17	**5,009,515**	4,556,217
Inventories of taxi licences		**2,676**	2,676
Investment properties	18	**250,988**	245,718
Property and equipment	19	**107,616**	112,481
Land held under finance leases	20	**655,769**	659,524
Interests in a jointly-controlled entity		**1,513**	1,513
Deferred tax assets		**30,918**	36,611
Tax recoverable		**7,781**	12,607
Goodwill		**2,774,403**	2,774,403
Intangible assets	21	**718**	718
Other assets	22	**135,943**	131,331
TOTAL ASSETS		**40,158,207**	40,535,842
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**806,507**	538,296
Derivative financial instruments		**31,208**	135
Customer deposits at amortised cost	23	**27,991,589**	29,374,122
Certificates of deposit issued at amortised cost		**1,254,755**	649,833
Dividends payable		**54,896**	98,812
Unsecured bank loans at amortised cost	24	**2,960,709**	2,960,437
Current tax payable		**41,007**	23,615
Deferred tax liabilities		**22,507**	24,555
Other liabilities		**319,381**	340,744
TOTAL LIABILITIES		**33,482,559**	34,010,549
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		**109,792**	109,792
Reserves	25	**6,565,856**	6,415,501
TOTAL EQUITY		**6,675,648**	6,525,293
TOTAL EQUITY AND LIABILITIES		**40,158,207**	40,535,842

Condensed Consolidated Statement of Changes in Equity

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
TOTAL EQUITY		
Balance at the beginning of the period	**6,525,293**	6,291,784
Profit for the period	**195,697**	172,782
Other comprehensive income	**9,554**	(5,920)
Total comprehensive income for the period	**205,251**	166,862
Dividends declared on shares	**(54,896)**	(54,896)
Balance at the end of the period	**6,675,648**	6,403,750

Condensed Consolidated Statement of Cash Flows

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
NET CASH FLOWS FROM:		
OPERATING ACTIVITIES	**(802,333)**	(386,368)
INVESTING ACTIVITIES	**(6,287)**	(10,280)
FINANCING ACTIVITIES	**(98,540)**	(80,457)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(907,160)**	(477,105)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**5,461,327**	7,692,870
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**4,554,167**	7,215,765
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and short term placements repayable on demand	**675,498**	666,920
Money at call and short notice with an original maturity within three months	**3,145,270**	3,866,736
Placements with banks and financial institutions with an original maturity within three months	**281,163**	537,582
Held-to-maturity investments with an original maturity within three months	**452,236**	2,144,527
	4,554,167	7,215,765

Notes to Interim Financial Statements

1. Basis of Preparation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and in compliance with the Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They also contain certain disclosure information required under the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the "HKMA").

The interim financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the 2012 Annual Report of Public Financial Holdings Limited (the "Company") and its subsidiaries (the "Group").

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

2. Basis of Consolidation

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

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

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

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that 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.

The subsidiaries consolidated for accounting purposes are Public Bank (Hong Kong) Limited ("Public Bank (Hong Kong)"), Public Finance Limited ("Public Finance"), Winton (B.V.I.) Limited and their subsidiaries, and a jointly-controlled entity.

3. 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 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 reporting purpose.

Notes to Interim Financial Statements

3. Basis of Capital Disclosures (Continued)

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 as a non-distributable regulatory reserve as part of Common Equity Tier 1 ("CET1") capital and is included in the capital base pursuant to the HKMA capital requirements.

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

4. Accounting Policies

Changes in accounting policies and disclosures

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

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

4. Accounting Policies (Continued)

Changes in accounting policies and disclosures (Continued)

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

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

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

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

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

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

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

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

Notes to Interim Financial Statements

4. Accounting Policies (Continued)

Changes in accounting policies and disclosures (Continued)

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

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

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

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

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

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

(c) HKAS 32 *Financial Instruments*: *Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders. The amendment does not have an impact on the interim condensed consolidated financial statements of the Group as there is no tax consequences attached to cash or non cash distribution.

(d) HKAS 34 *Interim Financial Reporting*: Clarifies the requirements in HKAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in HKFRS 8 *Operating Segments*.

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

4. Accounting Policies (Continued)

Impact of issued but not yet effective HKFRSs

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

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

1 effective for annual periods beginning on or after 1 January 2014
2 effective for annual periods beginning on or after 1 January 2015

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

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

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

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

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

Notes to Interim Financial Statements

4. Accounting Policies (Continued)

Impact of issued but not yet effective HKFRSs (Continued)

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

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

5. Segment Information

Operating segment information

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

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

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

– other businesses segment comprises taxi trading and the leasing of taxis and letting of investment properties.

The Group's inter-segment transactions during the period 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.

5. Segment Information (Continued)

Operating segment information (Continued)

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

	Retail and commercial banking businesses For the six months ended 30 June		Wealth management services, stockbroking and securities management For the six months ended 30 June		Other businesses For the six months ended 30 June		Eliminated on consolidation For the six months ended 30 June		Total For the six months ended 30 June	
	2013 (Unaudited) HK$'000	2012 (Unaudited) HK$'000	**2013 (Unaudited) HK$'000**	2012 (Unaudited) HK$'000	**2013 (Unaudited) HK$'000**	2012 (Unaudited) HK$'000	**2013 (Unaudited) HK$'000**	2012 (Unaudited) HK$'000	**2013 (Unaudited) HK$'000**	2012 (Unaudited) HK$'000
Segment revenue										
External:										
Net interest income	**670,404**	605,933	**48**	(47)	**-**	–	**-**	–	**670,452**	605,886
Other operating income:										
Fees and commission income	**70,614**	72,655	**28,617**	23,410	**398**	249	**-**	–	**99,629**	96,314
Others	**6,246**	6,978	**(2)**	(13)	**7,450**	6,970	**-**	–	**13,694**	13,935
Inter-segment transactions:										
Fees and commission income	**-**	–	**-**	–	**76**	65	**(76)**	(65)	**-**	–
Operating income	**747,264**	685,566	**28,663**	23,350	**7,924**	7,284	**(76)**	(65)	**783,775**	716,135
Profit before tax	**219,966**	181,785	**12,352**	6,845	**8,338**	19,855	**-**	–	**240,656**	208,485
Tax									**(44,959)**	(35,703)
Profit for the period									**195,697**	172,782
Other segment information										
Depreciation of property and equipment and land held under finance leases	**(15,625)**	(15,721)	**-**	–	**-**	–	**-**	–	**(15,625)**	(15,721)
Changes in fair value of investment properties	**-**	–	**-**	–	**5,270**	17,520	**-**	–	**5,270**	17,520
Impairment allowances for loans and advances and receivables	**(162,272)**	(155,345)	**-**	–	**-**	–	**-**	–	**(162,272)**	(155,345)
Net losses on disposal of property and equipment	**(202)**	(51)	**-**	–	**-**	–	**-**	–	**(202)**	(51)

Notes to Interim Financial Statements

5. Segment Information (Continued)

Operating segment information (Continued)

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

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000	**30 June 2013 (Unaudited) HK$'000**	31 December 2012 (Audited) HK$'000	**30 June 2013 (Unaudited) HK$'000**	31 December 2012 (Audited) HK$'000	**30 June 2013 (Unaudited) HK$'000**	31 December 2012 (Audited) HK$'000	**30 June 2013 (Unaudited) HK$'000**	31 December 2012 (Audited) HK$'000
Segment assets other than interest in a jointly-controlled entity, intangible assets and goodwill	**36,793,143**	37,167,712	**295,269**	292,462	**254,462**	249,816	**-**	–	**37,342,874**	37,709,990
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
	39,569,059	39,943,628	**295,987**	293,180	**254,462**	249,816	**-**	–	**40,119,508**	40,486,624
Unallocated assets:										
Deferred tax assets and tax recoverable									**38,699**	49,218
Total assets									**40,158,207**	40,535,842
Segment liabilities	**33,249,916**	33,743,197	**106,120**	113,085	**8,113**	7,285	**-**	–	**33,364,149**	33,863,567
Unallocated liabilities:										
Deferred tax liabilities and tax payable									**63,514**	48,170
Dividends payable									**54,896**	98,812
Total liabilities									**33,482,559**	34,010,549
Other segment information										
Additions to non-current assets – capital expenditure	**7,226**	24,399	**-**	–	**-**	–	**-**	–	**7,226**	24,399

5. Segment Information (Continued)

Geographical information

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

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

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Segment revenue from external customers:		
Hong Kong	**743,912**	678,295
Mainland China	**39,863**	37,840
	783,775	716,135

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

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

	30 June	31 December
	2013	2012
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Non-current assets:		
Hong Kong	**3,773,097**	3,775,719
Mainland China	**17,910**	18,638
	3,791,007	3,794,357

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

Operating income or revenue from major customers

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

Notes to Interim Financial Statements

6. Interest Income and Expense

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**783,418**	758,965
Short term placements and placements with banks	**26,671**	33,310
Held-to-maturity investments	**23,327**	26,003
	833,416	818,278
Interest expense on:		
Deposits from banks and financial institutions	**1,844**	19,392
Deposits from customers	**139,404**	175,505
Bank loans	**21,716**	17,495
	162,964	212,392

Interest income and interest expense for the six months ended 30 June 2013, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss, amounted to HK$833,416,000 and HK$162,964,000 (2012: HK$818,278,000 and HK$212,392,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2013 amounted to HK$4,952,000 (2012: HK$3,331,000).

7. Other Operating Income

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Fees and commission income:		
Retail and commercial banking	**71,826**	73,547
Wealth management services, stockbroking and securities management	**28,617**	23,410
	100,443	96,957
Less: Fees and commission expenses	**(814)**	(643)
Net fees and commission income	**99,629**	96,314
Gross rental income	**7,215**	6,633
Less: Direct operating expenses	**(40)**	(38)
Net rental income	**7,175**	6,595
Gains less losses arising from dealing in foreign currencies	**4,549**	4,738
Net losses on disposal of property and equipment	**(202)**	(51)
Dividend income from listed investments	**20**	12
Dividend income from unlisted investments	**900**	1,000
Others	**1,252**	1,641
	113,323	110,249

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

There were no net gains or losses arising from held-to-maturity investments, loans and advances and receivables, financial liabilities at amortised cost and financial liabilities designated at fair value through profit or loss for the six months ended 30 June 2013 and 2012.

All fees and commission income and expenses are related to financial assets or financial liabilities which are not designated at fair value through profit or loss. No fees and commission income and expenses are related to trust and other fiduciary activities.

Notes to Interim Financial Statements

8. Operating Expenses

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Staff costs:		
Salaries and other staff costs	**214,834**	195,612
Pension contributions	**10,662**	9,734
Less: Forfeited contributions	**(11)**	(16)
Net contribution to retirement benefit schemes	**10,651**	9,718
	225,485	205,330
Other operating expenses:		
Operating lease rentals on leasehold buildings	**30,940**	28,535
Depreciation of property and equipment and land held under finance leases	**15,625**	15,721
Administrative and general expenses	**36,827**	34,287
Others	**77,240**	85,952
Operating expenses before changes in fair value of investment properties	**386,117**	369,825

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

9. Impairment Allowances

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net charge for/(write-back of) impairment losses and allowances:		
– loans and advances	**161,946**	155,356
– trade bills, accrued interest and receivables	**326**	(11)
	162,272	155,345
Net charge for/(write-back of) impairment losses and allowances:		
– individually assessed	**160,171**	156,400
– collectively assessed	**2,101**	(1,055)
	162,272	155,345
Of which:		
– new impairment losses and allowances (including any amount directly written off during the period)	**263,198**	259,455
– releases and recoveries	**(100,926)**	(104,110)
Net charge to the consolidated income statement	**162,272**	155,345

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

Notes to Interim Financial Statements

10. Tax

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current tax charge:		
Hong Kong	**34,168**	29,836
Overseas	**7,285**	6,910
(Over-provision)/under-provision in prior periods	**(139)**	11,043
Deferred tax charge/(credit), net	**3,645**	(12,086)
	44,959	35,703

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

10. 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:

	For the six months ended 30 June 2013 (Unaudited)					
	Hong Kong HK$'000	**%**	**Mainland China HK$'000**	**%**	**Total HK$'000**	**%**
Profit before tax	**198,889**		**41,767**		**240,656**	
Tax at the applicable tax rate	**32,817**	**16.5**	**10,442**	**25.0**	**43,259**	**18.0**
Estimated tax losses from previous periods utilised	**(2)**	**–**	**–**	**–**	**(2)**	**–**
Estimated tax effect of net expenses that is not deductible	**1,774**	**0.9**	**67**	**0.2**	**1,841**	**0.8**
Adjustments in respect of current tax of previous periods	**(186)**	**(0.1)**	**47**	**0.1**	**(139)**	**(0.1)**
Tax charge at the Group's effective rate	**34,403**	**17.3**	**10,556**	**25.3**	**44,959**	**18.7**

	For the six months ended 30 June 2012 (Unaudited)					
	Hong Kong HK$'000	%	Mainland China HK$'000	%	Total HK$'000	%
Profit before tax	179,408		29,077		208,485	
Tax at the applicable tax rate	29,602	16.5	7,269	25.0	36,871	17.7
Estimated tax losses from previous periods utilised	(1)	–	–	–	(1)	–
Estimated tax effect of net income that is not taxable	(1,029)	(0.6)	(181)	(0.6)	(1,210)	(0.6)
Adjustments in respect of deferred tax of previous periods	(11,000)	(6.1)	–	–	(11,000)	(5.3)
Adjustments in respect of current tax of previous periods	11,043	6.2	–	–	11,043	5.3
Tax charge at the Group's effective rate	28,615	16.0	7,088	24.4	35,703	17.1

Notes to Interim Financial Statements

11. Dividends

	For the six months ended 30 June			
	2013	2012	**2013**	2012
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$ per ordinary share	HK$ per ordinary share	**HK$'000**	HK$'000
Interim	**0.05**	0.05	**54,896**	54,896

On 21 February 2013, a dividend of HK$0.09 per share totalling HK$98,812,586 was paid to shareholder as the second interim dividend for 2012.

On 20 February 2012, a dividend of HK$0.11 per share totalling HK$120,770,938 was paid to shareholder as the second interim dividend for 2011.

12. Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period of HK$195,697,000 (2012: HK$172,782,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2012: 1,097,917,618) during the period.

(b) Diluted earnings per share

The share options outstanding during the periods ended 30 June 2013 and 2012 had no dilutive effect on the basic earnings per share for these periods. The calculation of diluted earnings per share for the period ended 30 June 2013 was based on the profit for the period of HK$195,697,000 (2012: HK$172,782,000) and on the weighted average number of ordinary shares of 1,097,917,618 (2012: 1,097,917,618), being the weighted average number of ordinary shares in issue of 1,097,917,618 (2012: 1,097,917,618) during the period as used in the basic earnings per share calculation.

13. Cash and Short Term Placements

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Cash on hand	**129,908**	130,182
Placements with banks and financial institutions	**545,590**	578,371
Money at call and short notice	**3,145,270**	3,242,915
	3,820,768	3,951,468

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.

14. Placements with Banks and Financial Institutions Maturing after One Month but not more than Twelve Months

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

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

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

15. Loans and Advances and Receivables

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Loans and advances to customers	**26,683,094**	27,100,271
Trade bills	**60,456**	82,066
Loans and advances, and trade bills	**26,743,550**	27,182,337
Accrued interest	**83,559**	90,896
	26,827,109	27,273,233
Other receivables	**42,684**	48,092
Gross loans and advances and receivables	**26,869,793**	27,321,325
Less: Impairment allowances for loans and advances and receivables		
– individually assessed	**(120,163)**	(124,367)
– collectively assessed	**(29,790)**	(27,455)
	(149,953)	(151,822)
Loans and advances and receivables	**26,719,840**	27,169,503

Notes to Interim Financial Statements

15. Loans and Advances and Receivables (Continued)

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:

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Neither past due nor impaired loans and advances and receivables	**26,282,275**	26,629,959
Past due but not impaired loans and advances and receivables	**425,659**	447,883
Individually impaired loans and advances	**158,252**	227,588
Individually impaired receivables	**3,607**	15,895
Total loans and advances and receivables	**26,869,793**	27,321,325

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.

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

	30 June 2013 (Unaudited)		31 December 2012 (Audited)	
	Gross amount HK$'000	**Percentage of total loans and advances %**	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	**91,226**	**0.34**	93,668	0.35
One year or less but over six months	**7,354**	**0.03**	3,347	0.01
Over one year	**18,995**	**0.07**	90,873	0.33
Loans and advances overdue for more than three months	**117,575**	**0.44**	187,888	0.69
Rescheduled loans and advances overdue for three months or less	**32,381**	**0.12**	34,400	0.13
Impaired loans and advances overdue for three months or less	**8,296**	**0.03**	5,300	0.02
Total overdue and impaired loans and advances	**158,252**	**0.59**	227,588	0.84

15. Loans and Advances and Receivables (Continued)

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

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

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.

Notes to Interim Financial Statements

15. Loans and Advances and Receivables (Continued)

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

	30 June 2013 (Unaudited) Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000	31 December 2012 (Audited) Hong Kong HK$'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	**98,331**	**22,803**	**121,134**	97,623	106,159	203,782
Individual impairment allowances	**77,286**	**17,354**	**94,640**	69,045	30,961	100,006
Current market value and fair value of collateral			**35,361**			238,992
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**138,748**	**23,111**	**161,859**	137,324	106,159	243,483
Individual impairment allowances	**102,501**	**17,662**	**120,163**	93,406	30,961	124,367
Current market value and fair value of collateral			**45,010**			242,715

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.

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

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**35,361**	238,992
Covered portion of overdue loans and advances	**11,428**	78,063
Uncovered portion of overdue loans and advances	**106,147**	109,825

15. Loans and Advances and Receivables (Continued)

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

The assets taken as collateral should satisfy the following criteria:

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

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

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

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

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

– Central governments with a grading of Aa3 or above

– Unrated public sector enterprises

– Banks with a grading of Baa2 or above

– Unrated corporations

– Individual shareholders and directors of corporate customers

(d) Repossessed assets

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

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

	30 June 2013 (Unaudited)		31 December 2012 (Audited)	
	Gross amount HK$'000	**Percentage of total loans and advances %**	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for three months or less	**425,115**	**1.59**	445,959	1.65
Trade bills, accrued interest and other receivables overdue for three months or less	**544**		1,924	

Notes to Interim Financial Statements

15. Loans and Advances and Receivables (Continued)

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

	30 June 2013 (Unaudited) Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
At 1 January 2013	**124,367**	**27,455**	**151,822**
Amounts written off	**(244,072)**	**–**	**(244,072)**
Impairment losses and allowances charged to the consolidated income statement	**259,678**	**3,520**	**263,198**
Impairment losses and allowances released to the consolidated income statement	**(99,507)**	**(1,419)**	**(100,926)**
Net charge of impairment losses and allowances	**160,171**	**2,101**	**162,272**
Loans and advances and receivables recovered	**79,530**	**–**	**79,530**
Exchange difference	**167**	**234**	**401**
At 30 June 2013	**120,163**	**29,790**	**149,953**
Deducted from:			
Loans and advances	**118,012**	**29,647**	**147,659**
Trade bills, accrued interest and other receivables	**2,151**	**143**	**2,294**
	120,163	**29,790**	**149,953**

15. Loans and Advances and Receivables (Continued)

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

	31 December 2012 (Audited)		
	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
At 1 January 2012	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 Interim Financial Statements

15. Loans and Advances and Receivables (Continued)

(g) Finance lease receivables

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

	30 June 2013 (Unaudited)	31 December 2012 (Audited)	30 June 2013 (Unaudited)	31 December 2012 (Audited)
	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	**388,106**	401,340	**293,904**	306,648
In the second to fifth years, inclusive	**1,093,942**	1,098,536	**799,157**	809,263
Over five years	**3,803,790**	3,717,213	**3,183,398**	3,115,985
	5,285,838	5,217,089	**4,276,459**	4,231,896
Less: Unearned finance income	**(1,009,379)**	(985,193)		
Present value of minimum lease payments receivable	**4,276,459**	4,231,896		

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.

16. Available-for-Sale Financial Assets

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Unlisted equity investments, at fair value:		
At the beginning of the period/year and the end of the period/year	**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.

17. Held-to-Maturity Investments

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

Notes to Interim Financial Statements

17. Held-to-Maturity Investments (Continued)

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

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

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

18. Investment Properties

	HK$'000
At valuation:	
At 1 January 2012	195,309
Transfer to property and equipment	(450)
Transfer to land held under finance leases	(9,134)
Changes in fair value	59,993
At 31 December 2012 and 1 January 2013 (Audited)	**245,718**
Changes in fair value	**5,270**
At 30 June 2013 (Unaudited)	**250,988**

At 30 June 2013, investment properties with a carrying amount of HK$245,718,000 (31 December 2012: HK$185,725,000) were revalued at HK$250,988,000 (31 December 2012: HK$245,718,000) according to revaluation report 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$5,270,000 (31 December 2012: HK$59,993,000) resulting from the above valuation has been credited to the consolidated income statement.

The investment properties held by the Group are let under operating leases from which the Group earns rental income. Details of future annual rental receivables under operating leases are included in note 26(a) to the interim financial statements.

19. Property and Equipment

	Buildings HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
At 1 January 2012	71,500	179,170	1,998	252,668
Transfer from investment properties	450	–	–	450
Additions	–	24,399	–	24,399
Disposals/write-off	–	(12,668)	–	(12,668)
At 31 December 2012 and 1 January 2013 (Audited)	**71,950**	**190,901**	**1,998**	**264,849**
Additions	**–**	**7,226**	**–**	**7,226**
Disposals/write-off	**–**	**(1,304)**	**–**	**(1,304)**
At 30 June 2013 (Unaudited)	**71,950**	**196,823**	**1,998**	**270,771**
Accumulated depreciation:				
At 1 January 2012	15,704	123,699	1,748	141,151
Provided during the year	1,631	22,055	50	23,736
Exchange difference	10	–	–	10
Disposals/write-off	–	(12,529)	–	(12,529)
At 31 December 2012 and 1 January 2013 (Audited)	**17,345**	**133,225**	**1,798**	**152,368**
Provided during the period	**802**	**11,043**	**25**	**11,870**
Exchange difference	**19**	**–**	**–**	**19**
Disposals/write-off	**–**	**(1,102)**	**–**	**(1,102)**
At 30 June 2013 (Unaudited)	**18,166**	**143,166**	**1,823**	**163,155**
Net carrying amount:				
At 30 June 2013 (Unaudited)	**53,784**	**53,657**	**175**	**107,616**
At 31 December 2012 (Audited)	54,605	57,676	200	112,481

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

Notes to Interim Financial Statements

20. Land Held under Finance Leases

	HK$'000
Cost:	
At 1 January 2012	725,010
Transfer from investment properties	9,134
At 31 December 2012 and 1 January 2013 (Audited) and 30 June 2013 (Unaudited)	**734,144**
Accumulated depreciation and impairment:	
At 1 January 2012	67,110
Depreciation provided during the year	7,510
At 31 December 2012 and 1 January 2013 (Audited)	**74,620**
Depreciation provided during the period	**3,755**
At 30 June 2013 (Unaudited)	**78,375**
Net carrying amount:	
At 30 June 2013 (Unaudited)	**655,769**
At 31 December 2012 (Audited)	659,524

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.

21. Intangible Assets

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Cost:		
At the beginning of the period/year and at the end of the period/year	**1,085**	1,085
Accumulated impairment:		
At the beginning of the period/year and at the end of the period/year	**367**	367
Net carrying amount:		
At the beginning of the period/year and at the end of the period/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 (2012: five units) of Stock Exchange Trading Right and one unit (2012: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

22. Other Assets

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Interest receivables from authorised institutions	**6,655**	5,089
Other debtors, deposits and prepayments	**129,288**	126,242
	135,943	131,331

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

Notes to Interim Financial Statements

23. Customer Deposits at Amortised Cost

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Demand deposits and current accounts	**3,159,733**	1,990,331
Savings deposits	**3,774,063**	4,037,715
Time, call and notice deposits	**21,057,793**	23,346,076
	27,991,589	29,374,122

24. Unsecured Bank Loans at Amortised Cost

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Unsecured bank loans	**2,960,709**	2,960,437
Repayable:		
On demand or within a period not exceeding one year	**2,093,743**	2,094,661
Within a period of more than one year but not exceeding two years	**866,966**	865,776
	2,960,709	2,960,437

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.

25. Reserves

	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	Translation reserve HK$'000	Total HK$'000
At 1 January 2012	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	–	–	–	–	–	(153,708)	–	(153,708)
At 31 December 2012 and 1 January 2013 (Audited)	**4,013,296**	**829**	**96,116**	**45,765**	**409,367**	**1,779,057**	**71,071**	**6,415,501**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**195,697**	**–**	**195,697**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**9,554**	**9,554**
Transfer to retained profits	**–**	**–**	**–**	**–**	**(5,225)**	**5,225**	**–**	**–**
Dividends declared	**–**	**–**	**–**	**–**	**–**	**(54,896)**	**–**	**(54,896)**
At 30 June 2013 (Unaudited)	**4,013,296**	**829**	**96,116**	**45,765**	**404,142**	**1,925,083**	**80,625**	**6,565,856**

Note: In accordance with the HKMA's guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reporting" (the "Guideline"), the Group's regulatory reserve and collective impairment allowances were included as CET1 capital in the Group's capital base at 30 June 2013 as defined in the Guideline. The regulatory reserve was held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to the Guideline from the HKMA.

Notes to Interim Financial Statements

26. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties are shown in note 18 under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

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

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Within one year	**8,933**	6,546
In the second to fifth years, inclusive	**6,567**	2,779
	15,500	9,325

(b) As lessee

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

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

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Within one year	**54,527**	48,135
In the second to fifth years, inclusive	**37,493**	27,956
	92,020	76,091

27. Off-Balance Sheet Exposure

(a) Contingent liabilities, commitments and derivatives

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

	30 June 2013 (Unaudited)				
	Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	72,824	72,824	65,071	–	–
Transaction-related contingencies	7,331	3,666	1,659	–	–
Trade-related contingencies	46,247	9,249	7,618	–	–
Forward forward deposits placed	147,765	147,765	29,553	–	–
Forward asset purchases	1,640	1,640	328	–	–
	275,807	235,144	104,229	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	2,780,972	7,241	38	9,988	31,208
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	123,784	61,892	61,892	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,728,378	–	–	–	–
	6,908,941	304,277	166,159	9,988	31,208
Capital commitments contracted for, but not provided in the statement of financial position	2,952				

Notes to Interim Financial Statements

27. Off-Balance Sheet Exposure (Continued)

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

	31 December 2012 (Audited)				
	Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	200,808	200,808	52,922	–	–
Transaction-related contingencies	10,909	5,454	3,785	–	–
Trade-related contingencies	99,942	19,989	17,223	–	–
Forward forward deposits placed	74,218	74,218	14,844	–	–
Forward asset purchases	2,806	2,806	561	–	–
	388,683	303,275	89,335	–	–
Derivatives held for trading:					
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 statement of financial position	5,925				

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

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

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

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

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

Notes to Interim Financial Statements

28. Related Party Transactions

During the period, 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:

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Related party transactions included in the consolidated income statement:		
Interest paid and payable to fellow subsidiaries and an affiliated company	**7,569**	12,194
Deposit interest paid to the ultimate holding company	**3**	2,317
Commitment fees paid to the ultimate holding company	**1,154**	1,159
Key management personnel compensation:		
– short term employee benefits	**3,247**	3,097
– post-employment benefits	**216**	204
	3,463	3,301
Interest income received from key management personnel	**1**	3
Interest expense paid to key management personnel	**12**	3
Commission income from key management personnel	**10**	12

	30 June	31 December
	2013	2012
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Related party transactions included in the consolidated statement of financial position:		
Cash and short term funds with the ultimate holding company	**2,296**	84
Deposits from the ultimate holding company, fellow subsidiaries and an affiliated company	**1,466,506**	1,400,956
Bank loan from a fellow subsidiary	**695,000**	698,000
Interest payable to the ultimate holding company, fellow subsidiaries and an affiliated company	**331**	332
Loans to key management personnel	**387**	368
Deposits from key management personnel	**5,034**	3,027

29. Fair Value of Financial Instruments

Set out below is a comparison of the carrying amounts and fair values of financial instruments, other than cash and short-term deposits, that are carried in the interim financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	30 June 2013 (Unaudited)			31 December 2012 (Audited)		
	Carrying amount HK$'000	**Fair value HK$'000**	**Unrecognised loss HK$'000**	Carrying amount HK$'000	Fair value HK$'000	Unrecognised loss HK$'000
Financial assets						
Derivative financial instruments	**9,988**	**9,988**	**–**	317	317	–
Loans and advances and receivables	**26,719,840**	**26,719,840**	**–**	27,169,503	27,169,503	–
Available-for-sale financial assets	**6,804**	**6,804**	**–**	6,804	6,804	–
Held-to-maturity investments	**5,009,515**	**5,007,660**	**(1,855)**	4,556,217	4,555,365	(852)
Other assets	**135,943**	**135,943**	**–**	131,331	131,331	–
Financial liabilities						
Deposits and balances of banks and other financial institutions at amortised cost	**806,507**	**806,507**	**–**	538,296	538,296	–
Derivative financial instruments	**31,208**	**31,208**	**–**	135	135	–
Customer deposits at amortised cost	**27,991,589**	**27,991,589**	**–**	29,374,122	29,374,122	–
Certificates of deposit issued at amortised cost	**1,254,755**	**1,254,755**	**–**	649,833	649,833	–
Unsecured bank loans at amortised cost	**2,960,709**	**2,960,709**	**–**	2,960,437	2,960,437	–
Other liabilities	**319,381**	**319,381**	**–**	340,744	340,744	–
Total unrecognised loss			**(1,855)**			(852)

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

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

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

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

Fixed rate financial instruments

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

Notes to Interim Financial Statements

29. 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 input are not based on observable market data.

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

	30 June 2013 (Unaudited)			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets:				
Derivative financial instruments	**–**	**9,988**	**–**	**9,988**
Available-for-sale financial assets	**–**	**–**	**6,804**	**6,804**
	–	**9,988**	**6,804**	**16,792**
Financial liabilities:				
Derivative financial instruments	**–**	**31,208**	**–**	**31,208**

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

29. Fair Value of Financial Instruments (Continued)

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

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

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

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

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

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

(c) Valuation techniques and processes

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

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

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

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30. Maturity Analysis of Financial Assets and Financial Liabilities

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

	30 June 2013 (Unaudited)							
	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	675,498	3,145,270	-	-	-	-	-	3,820,768
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	319,077	303,890	-	-	-	622,967
Loans and advances and receivables	692,170	1,042,175	1,232,791	3,720,364	6,625,646	13,423,452	133,195	26,869,793
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	576,800	2,091,968	2,245,058	95,689	-	-	5,009,515
Other assets	77	99,002	3,376	1,029	-	-	32,459	135,943
Foreign exchange contracts (gross)	-	2,758,187	22,785	-	-	-	-	2,780,972
Total financial assets	1,367,745	7,621,434	3,669,997	6,270,341	6,721,335	13,423,452	172,458	39,246,762
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	55,908	630,599	70,000	50,000	-	-	-	806,507
Customer deposits at amortised cost	6,946,236	9,623,659	7,066,440	4,209,205	146,049	-	-	27,991,589
Certificates of deposit issued at amortised cost	-	449,995	-	804,760	-	-	-	1,254,755
Unsecured bank loans at amortised cost	-	994,974	299,924	798,846	866,965	-	-	2,960,709
Other liabilities	1,053	122,533	21,661	26,699	6,670	-	140,765	319,381
Foreign exchange contracts (gross)	-	2,778,759	23,433	-	-	-	-	2,802,192
Total financial liabilities	7,003,197	14,600,519	7,481,458	5,889,510	1,019,684	-	140,765	36,135,133

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

	31 December 2012 (Audited)							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'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 Interim Financial Statements

31. Financial Risk Management Objectives and Policies

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

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

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

Risk management

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

(b) Currency risk

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

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

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

31. 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 exposures defines and states connected parties, statutory and applicable connected lending limits, types of connected transactions, the taking of collateral, the capital adequacy treatment and detailed procedures and controls for monitoring connected lending exposures. In general, interest rates and other terms and conditions applying to connected lending should not be more favourable than those loans offered to non-connected borrowers under similar circumstances. The terms and conditions should be determined on normal commercial terms at arm's length and in the ordinary course of business of the Group.

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

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, management information systems and reports. Loan borrowers subject to legal proceedings, negative comments from other counterparties and rescheduled arrangements are put under watch lists or under the "special mention" grade for management oversight.

Credit Committees of 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.

Notes to Interim Financial Statements

31. Financial Risk Management Objectives and Policies (Continued)

Credit risk management (Continued)

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

The Group mitigates credit risk by credit protection provided by guarantors and by loan collateral such as customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

The "Neither past due nor impaired loans and advances and receivables" are shown in note 15 to the interim financial statements.

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

Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its current obligations. 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.

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 an operational risk management function in place to identify, measure, monitor and control operational risk. Its Operational Risk Management Policy Manual defines the responsibilities of various committees, business units and supporting departments, and highlights key operational risk factors and categories with loss event types to facilitate the measurement and assessment of operational risks and their potential impact. Operational risk exposures are monitored by appropriate key risk indicators for tracking and escalation to management for providing early warning signals of increased operational risk or a breakdown in operational risk management. Regular operational risk management reports are received and consolidated from various parties and reported to the Operational Risk Management Committee for monitoring and controlling of operational risk.

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.

31. Financial Risk Management Objectives and Policies (Continued)

Capital adequacy ratios

With effect from 1 January 2013, the capital adequacy ratios of the Group are computed in accordance with the provisions of the Banking (Amendment) Ordinance 2012 relating to Basel III capital standards and the amended Capital Rules. As a result, the capital ratios shown for 30 June 2013 are not directly comparable to those of 31 December 2012. The Group 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. The capital adequacy ratios of the Group of 31 December 2012 are based on the Basel II capital accord.

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

	Basel III 30 June 2013 (Unaudited)	Basel II 31 December 2012 (Audited)
Group:		
Consolidated CET 1 Capital Ratio	**12.8%**	N/A
Consolidated Tier 1 Capital Ratio	**12.8%**	12.3%
Consolidated Total Capital Ratio	**14.1%**	13.4%
Public Bank (Hong Kong):		
Consolidated CET 1 Capital Ratio	**19.1%**	N/A
Consolidated Tier 1 Capital Ratio	**19.1%**	18.5%
Consolidated Total Capital Ratio	**20.2%**	19.6%

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

Capital disclosures

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 the aforesaid subsidiaries and other exposures.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) is computed on a consolidated basis including Public Bank (Hong Kong) and Public Finance. The subsidiaries not included in the computation of the consolidated capital adequacy ratio of Public Bank (Hong Kong) are Public Bank (Nominees) Limited, Public Investments Limited, Public Realty Limited, Public Credit Limited, Public Futures Limited, Public Pacific Securities Limited, Public Financial Securities Limited, Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited. Deductions from the capital base include investment in the aforesaid subsidiaries and other exposures.

Supplementary Financial Information (Unaudited)

Advances to Customers by Industry Sectors

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

	30 June 2013								
	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	534,669	266	2	109	–	344,667	64.5	795	795
Building and construction, property development and investment									
Property development	432,619	171	–	–	–	281,020	65.0	–	–
Property investment	6,291,427	2,492	–	23	–	5,844,859	92.9	3,122	3,122
Civil engineering works	116,028	52	–	12	–	29,080	25.1	–	–
Electricity and gas	846	–	–	–	–	790	93.4	–	–
Recreational activities	2,896	1	–	–	–	2,875	99.3	–	–
Information technology	29,633	12	–	248	247	1,308	4.4	–	–
Wholesale and retail trade	181,218	107	–	538	617	157,934	87.2	–	–
Transport and transport equipment	4,297,365	1,497	264	114	97	4,211,463	98.0	264	169
Hotels, boarding houses and catering	65,570	26	–	–	–	61,543	93.9	–	–
Financial concerns	221,500	102	–	30	–	148,011	66.8	–	–
Stockbrokers									
Margin lending	156,600	62	–	49	–	46,600	29.8	–	–
Others	3,764	1	–	–	–	764	20.3	–	–
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	23,006	9	–	–	–	4,450	19.3	–	–
Others	19,210	8	–	2	–	19,210	100.0	–	–
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	118,591	47	–	–	–	118,591	100.0	487	–
Loans for the purchase of other residential properties	7,466,950	2,693	535	653	–	7,363,348	98.6	2,254	–
Loans for credit card advances	13,374	5	36	52	67	–	–	36	22
Loans for other business purposes	17,920	7	–	5	–	17,920	100.0	–	–
Loans for other private purposes	3,896,795	17,937	90,524	244,722	243,044	164,621	4.2	131,532	93,999
Trade finance	668,229	265	–	10,630	–	571,631	85.5	–	–
Other loans and advances	90,952	36	–	–	–	76,413	84.0	–	–
Sub-total	24,649,162	25,796	91,361	257,187	244,072	19,467,098	79.0	138,490	98,107
Loans and advances for use outside Hong Kong	2,033,932	3,851	26,651	5,615	–	1,517,958	74.6	19,762	19,468
Total loans and advances (excluding trade bills and other receivables)	26,683,094	29,647	118,012	262,802	244,072	20,985,056	78.6	158,252	117,575

Advances to Customers by Industry Sectors (Continued)

	31 December 2012								
	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	365,808	159	–	729	1,005	298,970	81.7	–	–
Building and construction, property development and investment									
Property development	504,755	189	–	–	–	245,758	48.7	–	–
Property investment	6,611,472	2,469	–	–	–	6,010,790	90.9	–	–
Civil engineering works	112,887	40	–	–	–	23,520	20.8	–	–
Electricity and gas	81	–	–	–	–	–	–	–	–
Recreational activities	3,838	1	–	–	–	3,807	99.2	–	–
Information technology	30,000	11	–	–	–	1,414	4.7	–	–
Wholesale and retail trade	188,894	82	104	196	78	164,504	87.1	148	148
Transport and transport equipment	4,217,977	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	–	–
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)

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.

Non-Bank Mainland China Exposures

The following table illustrates the disclosure required to be made in respect of the Group's Mainland China exposures to non-bank counterparties:

	On-balance sheet exposure HK$'million	**Off-balance sheet exposure HK$'million**	**Total exposures HK$'million**	**Individual impairment allowance HK$'million**
As at 30 June 2013				
Mainland China entities	**1,260**	**68**	**1,328**	**27**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**392**	**1**	**393**	**–**
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland China exposures	**–**	**–**	**–**	**–**
	1,652	**69**	**1,721**	**27**

	On-balance sheet exposure HK$'million	Off-balance sheet exposure HK$'million	Total exposures HK$'million	Individual impairment allowance HK$'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

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.

	Banks and other financial institutions HK$'million	**Public sector entities HK$'million**	**Others HK$'million**	**Total HK$'million**
As at 30 June 2013				
1. Asia Pacific excluding Hong Kong, of which:	**3,665**	**355**	**576**	**4,596**
China	**1,795**	**355**	**397**	**2,547**
2. Western Europe, of which:	**2,465**	**–**	**148**	**2,613**
France	**1,096**	**–**	**–**	**1,096**

	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

Currency Risk

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

	Spot assets HK$'million	**Spot liabilities HK$'million**	**Forward purchases HK$'million**	**Forward sales HK$'million**	**Net long/(short) position HK$'million**	**Structural assets HK$'million**
As at 30 June 2013						
USD	**3,466**	**2,818**	**929**	**1,569**	**8**	**–**
RMB	**417**	**448**	**1**	**–**	**(30)**	**632**
AUD	**1,033**	**1,173**	**328**	**192**	**(4)**	**–**
Others	**421**	**863**	**1,454**	**1,014**	**(2)**	**–**
	5,337	**5,302**	**2,712**	**2,775**	**(28)**	**632**

Supplementary Financial Information (Unaudited)

Currency Risk (Continued)

	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

Liquidity Ratios

	For the six months ended 30 June **2013**	2012
Average liquidity ratios:		
Public Bank (Hong Kong)	**40.6%**	45.9%
Public Finance	**102.8%**	79.6%

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 reporting period.

Management Discussion and Analysis

Business Review

Overview

During the period under review, the banking industry in Hong Kong continued to be affected by the low interest rate environment for Hong Kong currency loans business. The persisting European debts issues and slow recovery of the US economy continued to cast volatilities on the global economic conditions including those of the Mainland China and Hong Kong.

The operating environment for financial institutions in Hong Kong was challenging and difficult in the period under review. High property prices, partly driven by low interest rates and insufficient supplies of new properties, continued to be a concern for potential asset bubbles. The various measures implemented by the Hong Kong government to curb speculative property transactions had resulted in a significant decline in the volume of property transactions in the Hong Kong market. Consequently, demand for commercial loans and property mortgage loans of the Group was affected by such adverse investment sentiments.

Financial Review

Revenue and earnings

For the six months ended 30 June 2013, the Group's profit after tax recorded an increase of HK$22.9 million or 13.3% to HK$195.7 million as compared to the corresponding period in 2012. The increase in earnings of the Group for the period under review was mainly attributed to the increase in net interest income arising from widening net interest margin on the Group's loans and advances.

The Group's basic earnings per share for the six months ended 30 June 2013 was HK$0.178. The board of directors had declared an interim dividend of HK$0.05 per share on 25 June 2013, payable on 30 July 2013.

During the period under review, the Group's total interest income increased by HK$15.1 million or 1.8% to HK$833.4 million, whilst total interest expense decreased by HK$49.4 million or 23.3% to HK$163.0 million. Consequently, the Group's net interest income increased by HK$64.6 million or 10.7% to HK$670.5 million. Other operating income from loan transactions, stockbroking and other business activities of the Group recorded an increase of HK$3.1 million or 2.8% to HK$113.3 million in the period under review.

The Group's operating expenses increased by HK$16.3 million or 4.4% to HK$386.1 million mainly due to the increase in human resources related costs and premises related costs.

Impairment allowance for loans and advances increased slightly by HK$6.9 million or 4.5% to HK$162.3 million during the period under review.

Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) decreased by HK$438.8 million or 1.6% to HK$26.74 billion as at 30 June 2013 from HK$27.18 billion as at 31 December 2012 mainly due to the repayment of commercial syndication loans and other commercial loans, coupled with lower volume of property mortgage loans due to the significant decline in properties transactions in the market. The Group's deposits from customers decreased by HK$1.38 billion or 4.7% to HK$27.99 billion as at 30 June 2013 from HK$29.37 billion as at 31 December 2012. Total assets of the Group stood at HK$40.16 billion as at 30 June 2013.

Branch network

Public Bank (Hong Kong), a subsidiary of the Company, has 32 branches in Hong Kong and 3 branches in Shenzhen in the People's Republic of China 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 Limited ("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 30 June 2013 to serve its customers. During the period under review, the Group did not open any new branches in light of the market conditions.

Management Discussion and Analysis

Financial Review (Continued)
Business performance
Public Bank (Hong Kong)
During the period under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) decreased by HK$440.8 million or 2.0% to HK$21.93 billion as at 30 June 2013 from HK$22.37 billion as at 31 December 2012. Deposits from customers (excluding intra-group's deposits) decreased by HK$1.58 billion or 6.2% to HK$24.16 billion as at 30 June 2013 from HK$25.74 billion as at 31 December 2012.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) stood at 20.2% as at 30 June 2013.

Public Bank (Hong Kong) will continue to identify suitable locations for the relocation of branches to better sites and will open new branches in appropriate locations during the year where feasible to expand its customer reach and to further develop its banking related financial services and customer base.

Public Finance
Total loans and advances of Public Finance remained relatively the same at HK$4.63 billion as compared to the position as at 31 December 2012. Deposits from customers increased by HK$190.3 million or 5.0% to HK$4.02 billion as at 30 June 2013 from HK$3.83 billion as at 31 December 2012.

Segmental information
The Group's business comprises three main segments: (i) retail and commercial banking businesses, (ii) stockbroking and wealth management services, and (iii) other businesses. 95% of the Group's operating income and 91% of the profit before tax were contributed by retail and commercial banking businesses for the period under review. When compared to the first half of 2012, the Group's operating income from retail and commercial banking businesses increased by HK$61.7 million or 9.0% to HK$747.3 million.

Contingent liabilities and commitments
The Group had 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 interim financial statements) as at the end of the period under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the period under review. There was no material funding required for capital expenditure and its commitments. As at 30 June 2013, 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 in funding of their business growth.

The Group relies principally on its internally generated capital, deposits from customers, deposits from financial institutions and the issuance of certificates of deposit to fund its banking and finance businesses. The Group's bank borrowings in the form of term loans denominated in Hong Kong dollars at floating interest rates stood at approximately HK$3.0 billion as at 30 June 2013. 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 0.44 times as at 30 June 2013 as compared to 0.45 times as at 31 December 2012. The Group's bank borrowings have remaining maturity periods of less than 2 years. In the normal course of its commercial banking business, Public Bank (Hong Kong) has entered into foreign exchange contracts and interest rate swaps and forward contracts to reduce the foreign exchange risk and interest rate risk exposures of the Group. The risk exposures to fluctuations in foreign exchange rates and interest rates were immaterial during the period under review.

Operational Review (Continued)

Asset quality

The Group's impaired loans to total loans ratio improved to 0.59% as at 30 June 2013 from 0.84% as at 31 December 2012, due to recovery of some impaired loans.

The Group will continue to safeguard its capital adequacy position, manage risks cautiously and set prudent yet flexible business development strategies to strike a balance between business growth and prudent risk management.

Human resources management

The objective of the Group's human resources 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 enroll 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, and to improve their management and business skills. Staff also 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 the first half year of 2013, no share options to subscribe for shares in the Company were exercised by employees of the Group. As at 30 June 2013, options to subscribe for 25,117,000 shares in the Company remained unexercised.

As at 30 June 2013, the Group's staff force stood at 1,398 employees. For the six months ended 30 June 2013, the Group's total staff related costs amounted to HK$225.5 million.

Prospects

The economic outlook of Hong Kong is anticipated to remain challenging with uncertainties on the global fiscal and monetary policies extending to the second half of 2013. The timing of the exit of the US from quantitative easing monetary policies remains uncertain and is expected to exert pressure on debt servicing ability and purchasing power of consumers with potential increase in interest rates in Hong Kong. Rising labour costs and appreciation of RMB currency would weaken the competitiveness of manufacturing and export activities in Mainland China. Despite the foregoings, the Group will continue to seek long-term business growth and take steps to align the business strategies of the Group with the business expansion plans. The Group will also adopt prudent capital and funding management to meet the challenges ahead.

Competition in the banking and financing industry is expected to remain intense with financial institutions seeking greater market share in loans and advances, customer deposits and fee income. The competitive environment and the additional prudential measures introduced by the regulatory authority in Hong Kong will add pressure on the cost of customer deposits and inter-bank borrowings, and adversely impact loans business growth. However, the Group will continue to safeguard its financial strength, manage risks cautiously and set prudent yet flexible business development strategies to diversify income streams.

The Group will continue to focus on expanding its retail and commercial banking and lending business and its consumer financing business through its branch network, offering of innovative products and implementing aggressive marketing strategies. The Group will continue to target selected market segments of Public Bank (Hong Kong), Public Finance and Winton Financial to grow its retail and commercial lending business and consumer financing business.

Barring unforeseen circumstances, the Group expects to register moderate growth in its banking and financing businesses and improvement in its financial performance in the second half of 2013.

Other Information

Interim Dividend

The board of directors has on 25 June 2013 declared an interim dividend of HK$0.05 (2012: HK$0.05) per share payable on 30 July 2013 to shareholders whose names appear on the register of members of the Company on 12 July 2013.

Changes to Information in respect of Directors

In accordance with Rule 13.51B(1) of the Listing Rules, the changes to information required to be disclosed by directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) since publication of the Company's Annual Report 2012 up to 15 July 2013 (being the date of approval of the Company's Interim Report 2013) are set out below:

Positions held with the Company and other members of the Group

Tan Sri Datuk Seri Utama Thong Yaw Hong, Tan Sri Dato' Sri Tay Ah Lek, Dato' Chang Kat Kiam, Mr. Lee Chin Guan, Mr. Quah Poh Keat and Mr. Tan Yoke Kong ceased to be members of Risk Management Committee of the Company on 27 May 2013, the date on which the Risk Management Committee was dissolved.

Tan Sri Datuk Seri Utama Thong Yaw Hong was appointed chairman and Tan Sri Dato' Sri Tay Ah Lek, Dato' Chang Kat Kiam, Mr. Lee Chin Guan and Mr. Quah Poh Keat were appointed members of the newly established risk management committees of Public Bank (Hong Kong) and Public Finance on 27 May 2013.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2013, 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

	Interests in	Name of directors	Number of ordinary shares					Percentage of interests in the issued share capital
			Directly beneficially owned	Through spouse or minor children	Through controlled corporations	Other interests	Total	%
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 Berhad ("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	100,028	–	–	–	100,028	0.0028
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

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.

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

(b) Long positions in underlying shares of the Company

Name of directors	Number of ordinary shares attached to the share options: At the beginning of the period	Granted during the period	Exercised during the period	At the end of the period	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 (the "ESOS") are only exercisable 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 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 reporting period.

Other Information

Share Option Scheme

Under the employees' share option scheme 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. No options were granted nor cancelled during the six months ended 30 June 2013.

	Number of share options				
Name	**Outstanding at the beginning of the period**	**Exercised during the period**	**Lapsed during the period**	**Outstanding at the end of the period**	**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	17,927,000	–	258,000	17,669,000	6.35
	25,375,000	–	258,000	25,117,000	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 six months ended 30 June 2013.

(iii) The remaining contractual life of the 25,117,000 outstanding options was 1.94 years as at 30 June 2013.

(iv) The share options outstanding as at 30 June 2013 can only be exercised in future open exercise periods.

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

As at 30 June 2013, 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 reporting period.

Loan Agreements 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.

Other Information

Loan Agreements with Covenants Relating to Specific Performance of the Controlling Shareholder (Continued)

(b) (continued)

The Second Amendment Agreement provides, among other things, that it is an event of default if Public Bank fails to maintain at least a 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) to (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 approximately HK$2.3 billion.

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 six months ended 30 June 2013.

Corporate Governance

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the 2013 Interim Report, in compliance with the Code Provisions in the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules except for the deviation in respect of the service term under Code Provision A.4.1 of the Listing Rules.

Under Code Provision A.4.1 of the Listing Rules, non-executive directors shall be appointed for specific terms and subject to re-election. The board of directors 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.

The board of directors will keep on reviewing the relevant Bye-laws and propose any amendments, if necessary, to ensure compliance with the Code as set out in the Listing Rules.

Model Code for Securities Transactions by Directors

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code of the Listing Rules. All directors confirmed that they have complied with the required standards as set out in the Model Code throughout the period under review.

Review by Audit Committee

The 2013 Interim Report has been reviewed by the Company's Audit Committee which comprises three Independent Non-Executive Directors and one Non-Executive Director.

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

Hong Kong, 15 July 2013