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

2014 Interim Report

Public Financial Holdings Limited

Interim Report 2014

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

Quah Poh Keat
Dato' Chang Kat Kiam
Chong Yam Kiang

Independent Non-executive Directors

Tan Sri Datuk Seri Utama Thong Yaw Hong (Co-Chairman)
Lee Chin Guan
Tang Wing Chew
Lai Wan

Joint Secretaries

Tan Yoke Kong
Chan Sau Kuen

Registered Office

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

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

Share Listing

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

Principal Registrar

MUFG Fund Services (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

Hong Kong Branch Registrar

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
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 2014 (Unaudited) HK$'000	2013 (Unaudited) HK$'000
Interest income	6	**804,963**	833,416
Interest expense	6	**(187,160)**	(162,964)
NET INTEREST INCOME		**617,803**	670,452
Other operating income	7	**105,773**	113,323
OPERATING INCOME		**723,576**	783,775
Operating expenses	8	**(379,176)**	(386,117)
Changes in fair value of investment properties		**4,034**	5,270
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**348,434**	402,928
Impairment allowances for loans and advances and receivables	9	**(119,286)**	(162,272)
PROFIT BEFORE TAX		**229,148**	240,656
Tax	10	**(42,698)**	(44,959)
PROFIT FOR THE PERIOD		**186,450**	195,697
ATTRIBUTABLE TO:			
Owners of the Company		**186,450**	195,697
EARNINGS PER SHARE (HK$)	12		
Basic		**0.170**	0.178
Diluted		**0.170**	0.178

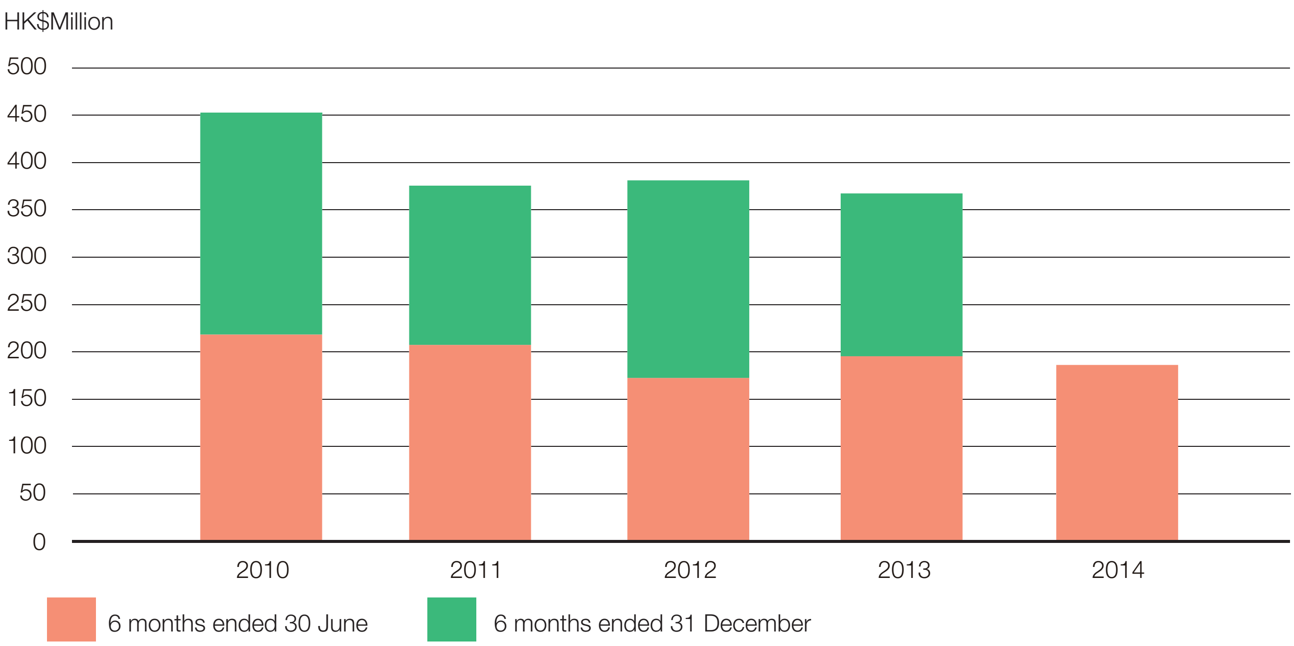
Details of interim dividends paid/payable are disclosed in note 11 to the interim financial statements.

Condensed Consolidated Statement of Comprehensive Income

	For the six months ended 30 June 2014 (Unaudited) HK$'000	2013 (Unaudited) HK$'000
PROFIT FOR THE PERIOD	**186,450**	195,697
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange (loss)/gain on translating foreign operations, net of tax	**(15,454)**	9,554
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**170,996**	205,251
ATTRIBUTABLE TO:		
Owners of the Company	**170,996**	205,251

Five-year Financial Summary

Profit



Financial Position

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
ASSETS			
Cash and short term placements	13	**3,709,785**	3,962,374
Placements with banks and financial institutions maturing after one month but not more than twelve months	14	**1,142,792**	1,195,991
Derivative financial instruments		**2,303**	771
Loans and advances and receivables	15	**27,725,727**	27,255,143
Available-for-sale financial assets	16	**6,804**	6,804
Held-to-maturity investments	17	**4,647,528**	4,780,905
Inventories of taxi licences		**–**	2,676
Investment properties	18	**255,877**	251,843
Property and equipment	19	**107,469**	109,720
Land held under finance leases	20	**648,259**	652,014
Interest in a joint venture		**1,513**	1,513
Deferred tax assets		**28,041**	30,645
Tax recoverable		**933**	8,377
Goodwill		**2,774,403**	2,774,403
Intangible assets	21	**718**	718
Other assets	22	**117,637**	113,721
TOTAL ASSETS		**41,169,789**	41,147,618
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**466,491**	483,401
Derivative financial instruments		**787**	610
Customer deposits at amortised cost	23	**30,532,183**	29,974,352
Certificates of deposit issued at amortised cost		**1,245,429**	1,794,492
Dividends payable		**54,896**	120,771
Unsecured bank loans at amortised cost	24	**1,657,222**	1,663,705
Current tax payable		**31,883**	27,318
Deferred tax liabilities		**23,983**	23,983
Other liabilities	22	**309,767**	327,938
TOTAL LIABILITIES		**34,322,641**	34,416,570
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		**109,792**	109,792
Reserves	25	**6,737,356**	6,621,256
TOTAL EQUITY		**6,847,148**	6,731,048
TOTAL EQUITY AND LIABILITIES		**41,169,789**	41,147,618

Condensed Consolidated Statement of Changes in Equity

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
TOTAL EQUITY		
Balance at the beginning of the period	**6,731,048**	6,525,293
Profit for the period	**186,450**	195,697
Other comprehensive income	**(15,454)**	9,554
Total comprehensive income for the period	**170,996**	205,251
Dividends declared on shares	**(54,896)**	(54,896)
Balance at the end of the period	**6,847,148**	6,675,648

Condensed Consolidated Statement of Cash Flows

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
NET CASH FLOWS FROM:		
OPERATING ACTIVITIES	**(703,573)**	(802,333)
INVESTING ACTIVITIES	**(7,481)**	(6,287)
FINANCING ACTIVITIES	**(127,254)**	(98,540)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(838,308)**	(907,160)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**5,329,103**	5,461,327
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**4,490,795**	4,554,167
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and short term placements repayable on demand	**913,291**	675,498
Money at call and short notice with an original maturity within three months	**2,796,494**	3,145,270
Placements with banks and financial institutions with an original maturity within three months	**422,064**	281,163
Held-to-maturity investments with an original maturity within three months	**358,946**	452,236
	4,490,795	4,554,167

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 ("BDR") 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 2013 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 2013 Annual Report, except for the changes in accounting policies as set out in note 4 below.

2. BASIS OF CONSOLIDATION

The interim condensed consolidated financial statements include the interim financial statements of the Company and its subsidiaries for the period ended 30 June 2014. The interim financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

The subsidiaries consolidated for accounting purpose 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 joint venture.

3. BASIS OF CAPITAL DISCLOSURES

The Group has complied with the capital requirements during the interim reporting period related to capital base and the capital adequacy ratio as stipulated by the HKMA, and has also followed the Guideline on the Application of the BDR 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 Financial Securities Limited and Public Securities Limited should satisfy the minimum requirements of the Securities and Futures (Financial Resources) Rules issued by the Securities and Futures Commission of Hong Kong.

A portion of retained profits, based on a percentage of gross loans and advances, is set aside as a non-distributable regulatory reserve as part of Common Equity Tier 1 ("CET1") capital and is included in the capital base pursuant to the HKMA capital requirements.

The Group has adopted the provisions of the Banking (Amendment) Ordinance 2012 relating to the Basel III capital standards and the amended Banking (Capital) Rules (the "Capital Rules"). The Capital Rules outline the general requirements on regulatory capital 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 and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are generally effective for accounting periods beginning on or after 1 January 2014. The Group has adopted the following new and revised HKFRSs issued up to 30 June 2014 which are pertinent to its operations and relevant to these interim financial statements.

- HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments — Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
- HKAS 32 Amendments — Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- HKAS 39 Amendments — Amendments to HKAS 39 *Financial Instruments: Recognition and measurement – Novation of Derivatives and Continuation of Hedge Accounting*
- HK(IFRIC)-Int 21 — *Levies*

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

Amendments to HKFRS 10 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 amendments do not have any material impact on the Group.

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

Notes to Interim Financial Statements

4. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

The HKAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The amendments do not have any material impact on the Group.

HK(IFRIC)-Int 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation does not have any material impact on the Group.

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*[3]
• HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting* and amendments to HKFRS 9, HKFRS 7 and HKAS 39[3]
• HKFRS 11 Amendments	*Accounting for Acquisitions of Interests in Joint Operations*[2]
• HKFRS 14	*Regulatory Deferral Accounts*[2]
• HKAS 16 and HKAS 38 Amendments	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
• HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[1]
• Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014[1]
• Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[1]

1 effective for annual periods beginning on or after 1 July 2014
2 effective for annual periods beginning on or after 1 January 2016
3 no mandatory effective date yet determined but is available for adoption

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.

Notes to Interim Financial Statements

4. ACCOUNTING POLICIES (Continued)

Impact of issued but not yet effective HKFRSs (Continued)

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit-risk related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

The HKFRS 11 Amendments requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in HKFRS 3 *Business Combinations*, to apply all of the principles on business combinations accounting in HKFRS 3 and other HKFRSs. In addition, the acquirer shall also disclose the information required by HKFRS 3 and other HKFRSs for business combinations. The amendments do not have any material impact on the Group.

HKFRS 14 was issued in February 2014 and it allows rate-regulated entities to continue recognising regulatory deferral accounts in connection with their first-time adoption of HKFRS. Existing HKFRS preparers are prohibited from adopting this standard. Entities that adopt HKFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the income statement and OCI. The standard also requires disclosures on the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements. The standard does not have any material impact on the Group.

The HKAS 16 and HKAS 38 Amendments both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments do not have any material impact on the Group.

The HKAS 19 Amendments apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of the service cost in the period in which the related service is rendered. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2015.

The Annual Improvements to HKFRSs 2010-2012 and 2011-2013 Cycles issued in January 2014 set out amendments to a number of HKFRSs and shall be applied for a financial period beginning on or after 1 July 2014, except where otherwise indicated. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

Notes to Interim Financial Statements

5. SEGMENT INFORMATION

Operating segment information

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

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

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

- other businesses segment comprises taxi trading, 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.

Notes to Interim Financial Statements

5. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table represents revenue and profit information for operating segments for the six months ended 30 June 2014 and 2013.

	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	
	2014 (Unaudited) HK$'000	2013 (Unaudited) HK$'000	**2014 (Unaudited) HK$'000**	2013 (Unaudited) HK$'000	**2014 (Unaudited) HK$'000**	2013 (Unaudited) HK$'000	**2014 (Unaudited) HK$'000**	2013 (Unaudited) HK$'000	**2014 (Unaudited) HK$'000**	2013 (Unaudited) HK$'000
Segment revenue										
External:										
Net interest income	**617,780**	670,404	**23**	48	**-**	–	**-**	–	**617,803**	670,452
Other operating income:										
Fees and commission income	**70,600**	70,614	**15,258**	28,617	**229**	398	**-**	–	**86,087**	99,629
Others	**7,607**	6,246	**(4)**	(2)	**12,083**	7,450	**-**	–	**19,686**	13,694
Inter-segment transactions:										
Fees and commission income	**-**	–	**-**	–	**69**	76	**(69)**	(76)	**-**	–
Operating income	**695,987**	747,264	**15,277**	28,663	**12,381**	7,924	**(69)**	(76)	**723,576**	783,775
Profit before tax	**215,904**	219,966	**1,827**	12,352	**11,417**	8,338	**-**	–	**229,148**	240,656
Tax									**(42,698)**	(44,959)
Profit for the period									**186,450**	195,697
Other segment information										
Depreciation of property and equipment and land held under finance leases	**(14,218)**	(15,625)	**-**	–	**-**	–	**-**	–	**(14,218)**	(15,625)
Changes in fair value of investment properties	**-**	–	**-**	–	**4,034**	5,270	**-**	–	**4,034**	5,270
Impairment allowances for loans and advances and receivables	**(119,286)**	(162,272)	**-**	–	**-**	–	**-**	–	**(119,286)**	(162,272)
Net losses on disposal of property and equipment	**(86)**	(202)	**-**	–	**-**	–	**-**	–	**(86)**	(202)

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 2014 and 31 December 2013.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000	**30 June 2014 (Unaudited) HK$'000**	31 December 2013 (Audited) HK$'000	**30 June 2014 (Unaudited) HK$'000**	31 December 2013 (Audited) HK$'000	**30 June 2014 (Unaudited) HK$'000**	31 December 2013 (Audited) HK$'000	**30 June 2014 (Unaudited) HK$'000**	31 December 2013 (Audited) HK$'000
Segment assets other than interest in a joint venture, intangible assets and goodwill	**37,810,071**	37,802,082	**295,304**	274,230	**258,806**	255,650	**–**	–	**38,364,181**	38,331,962
Interest in a joint venture	**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
Segment assets	**40,585,987**	40,577,998	**296,022**	274,948	**258,806**	255,650	**–**	–	**41,140,815**	41,108,596
Unallocated assets:										
Deferred tax assets and tax recoverable									**28,974**	39,022
Total assets									**41,169,789**	41,147,618
Segment liabilities	**34,096,782**	34,150,621	**106,426**	86,457	**8,671**	7,420	**–**	–	**34,211,879**	34,244,498
Unallocated liabilities:										
Deferred tax liabilities and tax payable									**55,866**	51,301
Dividends payable									**54,896**	120,771
Total liabilities									**34,322,641**	34,416,570
Other segment information										
Additions to non-current assets – capital expenditure	**8,267**	20,684	**–**	–	**–**	–	**–**	–	**8,267**	20,684

Notes to Interim Financial Statements

5. SEGMENT INFORMATION (Continued)

Geographical information

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

The following table represents segment revenue information for geographical segments for the six months ended 30 June 2014 and 2013.

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Segment revenue from external customers:		
Hong Kong	**682,425**	743,912
Mainland China	**41,151**	39,863
	723,576	783,775

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 2014 and 31 December 2013.

	30 June	31 December
	2014	2013
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Non-current assets:		
Hong Kong	**3,770,990**	3,772,797
Mainland China	**17,249**	17,414
	3,788,239	3,790,211

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

Operating income or revenue from major customers

Operating income or revenue from transactions with each external customer 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	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**734,119**	783,418
Short term placements and placements with banks	**40,594**	26,671
Held-to-maturity investments	**30,250**	23,327
	804,963	833,416
Interest expense on:		
Deposits from banks and financial institutions	**4,082**	1,844
Deposits from customers	**170,455**	139,404
Bank loans	**12,623**	21,716
	187,160	162,964

Interest income and interest expense for the six months ended 30 June 2014, 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$804,963,000 and HK$187,160,000 (2013: HK$833,416,000 and HK$162,964,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2014 amounted to HK$2,655,000 (2013: HK$4,952,000).

7. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Fees and commission income:		
Retail and commercial banking	**71,592**	71,826
Wealth management services, stockbroking and securities management	**15,258**	28,617
	86,850	100,443
Less: Fees and commission expenses	**(763)**	(814)
Net fees and commission income	**86,087**	99,629
Gross rental income	**7,727**	7,215
Less: Direct operating expenses	**(6)**	(40)
Net rental income	**7,721**	7,175
Gains less losses arising from dealing in foreign currencies	**4,538**	25,769
Net gains/(losses) on derivative financial instruments	**1,516**	(21,220)
	6,054	4,549
Net losses on disposal of property and equipment	**(86)**	(202)
Dividend income from listed investments	**17**	20
Dividend income from unlisted investments	**800**	900
Others	**5,180**	1,252
	105,773	113,323

Notes to Interim Financial Statements

7. OTHER OPERATING INCOME (Continued)

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

There were no net gains or losses arising from available-for-sale financial assets, held-to-maturity investments, loans and advances and receivables, financial liabilities measured at amortised cost and financial liabilities designated at fair value through profit or loss for the six months ended 30 June 2014 and 2013.

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.

8. OPERATING EXPENSES

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Staff costs:		
Salaries and other staff costs	**222,938**	214,834
Pension contributions	**10,433**	10,662
Less: Forfeited contributions	**(4)**	(11)
Net contribution to retirement benefit schemes	**10,429**	10,651
	233,367	225,485
Other operating expenses:		
Operating lease rentals on leasehold buildings	**31,699**	30,940
Depreciation of property and equipment and land held under finance leases	**14,218**	15,625
Administrative and general expenses	**35,168**	36,827
Others	**64,724**	77,240
Operating expenses before changes in fair value of investment properties	**379,176**	386,117

At 30 June 2014 and 2013, 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.

Notes to Interim Financial Statements

9. IMPAIRMENT ALLOWANCES

	For the six months ended 30 June 2014 (Unaudited) HK$'000	2013 (Unaudited) HK$'000
Net charge for/(write-back of) impairment losses and allowances:		
– loans and advances	**121,348**	161,946
– trade bills, accrued interest and receivables	**(2,062)**	326
	119,286	162,272
Net charge for impairment losses and allowances:		
– individually assessed	**117,095**	160,171
– collectively assessed	**2,191**	2,101
	119,286	162,272
Of which:		
– new impairment losses and allowances (including any amount directly written off during the period)	**218,725**	263,198
– releases and recoveries	**(99,439)**	(100,926)
Net charge to the consolidated income statement	**119,286**	162,272

There were no impairment allowances for financial assets other than loans and advances and receivables for the six months ended 30 June 2014 and 2013.

10. TAX

	For the six months ended 30 June 2014 (Unaudited) HK$'000	2013 (Unaudited) HK$'000
Current tax charge:		
Hong Kong	**31,376**	34,168
Overseas	**8,677**	7,285
Under-provision/(over-provision) in prior periods	**41**	(139)
Deferred tax charge, net	**2,604**	3,645
	42,698	44,959

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 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.

Notes to Interim Financial Statements

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 joint venture are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	For the six months ended 30 June 2014 (Unaudited)					
	Hong Kong HK$'000	**%**	**Mainland China HK$'000**	**%**	**Total HK$'000**	**%**
Profit before tax	**192,109**		**37,039**		**229,148**	
Tax at the applicable tax rate	**31,698**	**16.5**	**9,260**	**25.0**	**40,958**	**17.9**
Estimated tax losses from previous periods utilised	**(3)**	**–**	**–**	**–**	**(3)**	**–**
Estimated tax effect of net expenses that are not deductible	**1,702**	**0.9**	**–**	**–**	**1,702**	**0.7**
Adjustments in respect of current tax of previous periods	**41**	**–**	**–**	**–**	**41**	**–**
Tax charge at the Group's effective rate	**33,438**	**17.4**	**9,260**	**25.0**	**42,698**	**18.6**

	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 are 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

Notes to Interim Financial Statements

11. DIVIDENDS

	For the six months ended 30 June			
	2014 (Unaudited) HK$ per ordinary share	2013 (Unaudited) HK$ per ordinary share	**2014 (Unaudited) HK$'000**	2013 (Unaudited) HK$'000
Interim	**0.05**	0.05	**54,896**	54,896

On 20 February 2014, a dividend of HK$0.11 per share totalling HK$120,770,938 was paid to shareholders as the second interim dividend for 2013.

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

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$186,450,000 (2013: HK$195,697,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2013: 1,097,917,618) during the period.

(b) Diluted earnings per share

The share options outstanding during the periods ended 30 June 2014 and 2013 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 2014 was based on the profit for the period of HK$186,450,000 (2013: HK$195,697,000) and on the weighted average number of ordinary shares of 1,097,917,618 (2013: 1,097,917,618), being the weighted average number of ordinary shares in issue of 1,097,917,618 (2013: 1,097,917,618) during the period as used in the basic earnings per share calculation.

13. CASH AND SHORT TERM PLACEMENTS

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Cash on hand	**132,527**	176,023
Placements with banks and financial institutions	**780,764**	1,052,633
Money at call and short notice	**2,796,494**	2,733,718
	3,709,785	3,962,374

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.

Notes to Interim Financial Statements

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

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Placements with banks and financial institutions	**1,142,792**	1,195,991

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 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Loans and advances to customers	**27,674,842**	27,223,903
Trade bills	**55,745**	55,322
Loans and advances, and trade bills	**27,730,587**	27,279,225
Accrued interest	**71,761**	76,119
	27,802,348	27,355,344
Other receivables	**35,997**	40,173
Gross loans and advances and receivables	**27,838,345**	27,395,517
Less: Impairment allowances for loans and advances and receivables		
– individually assessed	**(89,548)**	(119,480)
– collectively assessed	**(23,070)**	(20,894)
	(112,618)	(140,374)
Loans and advances and receivables	**27,725,727**	27,255,143

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.

Notes to Interim Financial Statements

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

Loans and advances and receivables are summarised as follows:

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Neither past due nor impaired loans and advances and receivables	**27,380,938**	26,860,899
Past due but not impaired loans and advances and receivables	**302,614**	358,671
Individually impaired loans and advances	**152,175**	171,837
Individually impaired receivables	**2,618**	4,110
Total loans and advances and receivables	**27,838,345**	27,395,517

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 properties, taxi licences, public light bus licences and vehicles.

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

	30 June 2014 (Unaudited)		31 December 2013 (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	**78,837**	**0.29**	107,681	0.40
One year or less but over six months	**21,865**	**0.08**	3,176	0.01
Over one year	**11,416**	**0.04**	23,022	0.08
Loans and advances overdue for more than three months	**112,118**	**0.41**	133,879	0.49
Rescheduled loans and advances overdue for three months or less	**34,709**	**0.12**	34,291	0.13
Impaired loans and advances overdue for three months or less	**5,348**	**0.02**	3,667	0.01
Total overdue and impaired loans and advances	**152,175**	**0.55**	171,837	0.63

Notes to Interim Financial Statements

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**353**	192
One year or less but over six months	**264**	23
Over one year	**1,947**	3,797
Trade bills, accrued interest and other receivables overdue for more than three months	**2,564**	4,012
Impaired trade bills, accrued interest and other receivables overdue for three months or less	**54**	98
Total overdue and impaired trade bills, accrued interest and other receivables	**2,618**	4,110

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

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 2014 (Unaudited) Hong Kong HK$'000	30 June 2014 (Unaudited) Mainland China HK$'000	30 June 2014 (Unaudited) Total HK$'000	31 December 2013 (Audited) Hong Kong HK$'000	31 December 2013 (Audited) Mainland China HK$'000	31 December 2013 (Audited) Total HK$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	**104,562**	**10,120**	**114,682**	115,047	22,844	137,891
Individual impairment allowances	**56,995**	**8,528**	**65,523**	76,582	18,921	95,503
Current market value and fair value of collateral			**98,337**			63,853
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**144,330**	**10,463**	**154,793**	152,098	23,849	175,947
Individual impairment allowances	**80,677**	**8,871**	**89,548**	99,553	19,927	119,480
Current market value and fair value of collateral			**104,410**			65,056

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

Notes to Interim Financial Statements

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**98,337**	63,853
Covered portion of overdue loans and advances	**35,237**	23,646
Uncovered portion of overdue loans and advances	**76,881**	110,233

The assets taken as collateral should satisfy the following criteria:

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

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

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

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

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

– Central governments with a grading of Aa3 or above

– Unrated public sector enterprises

– Banks with a grading of Baa2 or above

– Unrated corporations

– Individual shareholders and directors of corporate customers

(d) Repossessed assets

At 30 June 2014, the total value of repossessed assets of the Group amounted to HK$27,415,000 (31 December 2013: HK$6,200,000).

Notes to Interim Financial Statements

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2014 (Unaudited) Gross amount HK$'000	30 June 2014 (Unaudited) Percentage of total loans and advances %	31 December 2013 (Audited) Gross amount HK$'000	31 December 2013 (Audited) Percentage of total loans and advances %
Loans and advances overdue for three months or less	**302,193**	**1.09**	356,544	1.31
Trade bills, accrued interest and other receivables overdue for three months or less	**421**		2,127	

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

	30 June 2014 (Unaudited) Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
At 1 January 2014	**119,480**	**20,894**	**140,374**
Amounts written off	**(232,886)**	**–**	**(232,886)**
Impairment losses and allowances charged to the consolidated income statement	**213,727**	**4,998**	**218,725**
Impairment losses and allowances released to the consolidated income statement	**(96,632)**	**(2,807)**	**(99,439)**
Net charge of impairment losses and allowances	**117,095**	**2,191**	**119,286**
Loans and advances and receivables recovered	**86,366**	**–**	**86,366**
Exchange difference	**(507)**	**(15)**	**(522)**
At 30 June 2014	**89,548**	**23,070**	**112,618**
Deducted from:			
Loans and advances	**89,302**	**23,001**	**112,303**
Trade bills, accrued interest and other receivables	**246**	**69**	**315**
	89,548	**23,070**	**112,618**

Notes to Interim Financial Statements

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2013 (Audited)		
	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	(494,992)	–	(494,992)
Impairment losses and allowances charged to the consolidated income statement	512,724	307	513,031
Impairment losses and allowances released to the consolidated income statement	(180,815)	(7,304)	(188,119)
Net charge/(release) of impairment losses and allowances	331,909	(6,997)	324,912
Loans and advances and receivables recovered	157,841	–	157,841
Exchange difference	355	436	791
At 31 December 2013	119,480	20,894	140,374
Deducted from:			
Loans and advances	117,223	20,785	138,008
Trade bills, accrued interest and other receivables	2,257	109	2,366
	119,480	20,894	140,374

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 2014 (Unaudited)	31 December 2013 (Audited)	30 June 2014 (Unaudited)	31 December 2013 (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	**383,095**	390,656	**287,942**	294,974
In the second to fifth years, inclusive	**1,116,427**	1,118,977	**811,935**	816,322
Over five years	**3,886,816**	3,850,125	**3,244,428**	3,215,212
	5,386,338	5,359,758	**4,344,305**	4,326,508
Less: Unearned finance income	**(1,042,033)**	(1,033,250)		
Present value of minimum lease payments receivable	**4,344,305**	4,326,508		

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 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Unlisted equity investments in corporate entity, at fair value:		
At the beginning of the period/year and at the end of the period/year	**6,804**	6,804

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

Notes to Interim Financial Statements

17. HELD-TO-MATURITY INVESTMENTS

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Certificates of deposit held	**1,783,023**	1,894,973
Treasury bills (including Exchange Fund Bills)	**1,949,256**	1,993,645
Other debt securities	**915,249**	892,287
	4,647,528	4,780,905
Listed or unlisted:		
– Listed in Hong Kong	**907,408**	644,484
– Listed outside Hong Kong	**260,261**	282,261
– Unlisted	**3,479,859**	3,854,160
	4,647,528	4,780,905
Analysed by type of issuers:		
– Central government	**1,949,256**	1,993,645
– Banks and other financial institutions	**2,698,272**	2,787,260
	4,647,528	4,780,905

There were no impairment allowances made against held-to-maturity investments as at 30 June 2014 and 31 December 2013. There were no movements in impairment allowances for the period ended 30 June 2014 and for the year ended 31 December 2013.

There were neither impaired nor overdue held-to-maturity investments as at 30 June 2014 and 31 December 2013.

All exposures attributed to the held-to-maturity investments were rated with a grading of A3 or above based on the credit rating of an external credit agency, Moody's.

18. INVESTMENT PROPERTIES

	HK$'000
At valuation:	
At 1 January 2013	245,718
Changes in fair value recognised in consolidated income statement	6,125
At 31 December 2013 and 1 January 2014 (Audited)	**251,843**
Changes in fair value recognised in consolidated income statement	**4,034**
At 30 June 2014 (Unaudited)	**255,877**

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

At 30 June 2014, investment properties were revalued according to the revaluation reports issued by C S Surveyors Limited, a firm of independent professionally qualified valuers. Finance and Control Department has discussions with the valuer on the valuation methodology and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

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

	30 June 2014 (Unaudited) Range (weighted average)	31 December 2013 (Audited) Range (weighted average)
Price per square metre	**HK$24,000 to HK$450,000 (HK$149,000)**	HK$24,000 to HK$442,000 (HK$147,000)

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

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

Notes to 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 2013	71,950	190,901	1,998	264,849
Additions	–	20,684	–	20,684
Disposals/write-off	–	(7,639)	–	(7,639)
At 31 December 2013 and 1 January 2014 (Audited)	**71,950**	**203,946**	**1,998**	**277,894**
Additions	**–**	**8,267**	**–**	**8,267**
Disposals/write-off	**–**	**(1,076)**	**–**	**(1,076)**
At 30 June 2014 (Unaudited)	**71,950**	**211,137**	**1,998**	**285,085**
Accumulated depreciation:				
At 1 January 2013	17,345	133,225	1,798	152,368
Provided during the year	1,606	21,523	50	23,179
Exchange difference	36	–	–	36
Disposals/write-off	–	(7,409)	–	(7,409)
At 31 December 2013 and 1 January 2014 (Audited)	**18,987**	**147,339**	**1,848**	**168,174**
Provided during the period	**851**	**9,587**	**25**	**10,463**
Exchange difference	**(31)**	**–**	**–**	**(31)**
Disposals/write-off	**–**	**(990)**	**–**	**(990)**
At 30 June 2014 (Unaudited)	**19,807**	**155,936**	**1,873**	**177,616**
Net carrying amount:				
At 30 June 2014 (Unaudited)	**52,143**	**55,201**	**125**	**107,469**
At 31 December 2013 (Audited)	52,963	56,607	150	109,720

No valuation has been made for the above items of property and equipment for the period ended 30 June 2014 and for the year ended 31 December 2013.

Notes to Interim Financial Statements

20. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
At 1 January 2013, 31 December 2013, 1 January 2014 (Audited) and 30 June 2014 (Unaudited)	**734,144**
Accumulated depreciation and impairment:	
At 1 January 2013	74,620
Depreciation provided during the year	7,510
At 31 December 2013 and 1 January 2014 (Audited)	**82,130**
Depreciation provided during the period	**3,755**
At 30 June 2014 (Unaudited)	**85,885**
Net carrying amount:	
At 30 June 2014 (Unaudited)	**648,259**
At 31 December 2013 (Audited)	652,014

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 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'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 (2013: five units) of Stock Exchange Trading Right and one unit (2013: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

Notes to Interim Financial Statements

22. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Interest receivables from authorised institutions	**16,464**	10,736
Other debtors, deposits and prepayments	**92,928**	80,805
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	**8,245**	22,180
	117,637	113,721

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

Other liabilities

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Creditors, accruals and interest payables	**282,935**	327,938
Net amount of accounts payable to HKSCC	**26,832**	–
	309,767	327,938

23. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Demand deposits and current accounts	**2,300,507**	2,345,153
Savings deposits	**4,483,626**	4,062,520
Time, call and notice deposits	**23,748,050**	23,566,679
	30,532,183	29,974,352

Notes to Interim Financial Statements

24. UNSECURED BANK LOANS AT AMORTISED COST

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Unsecured bank loans	**1,657,222**	1,663,705
Repayable:		
On demand or within a period not exceeding one year	**1,657,222**	1,663,705

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 2013	4,013,296	829	96,116	45,765	409,367	1,779,057	71,071	6,415,501
Profit for the year	–	–	–	–	–	367,761	–	367,761
Other comprehensive income	–	–	–	–	–	–	13,661	13,661
Transfer from retained profits	–	–	–	–	778	(778)	–	–
Dividends for 2013	–	–	–	–	–	(175,667)	–	(175,667)
At 31 December 2013 and 1 January 2014 (Audited)	**4,013,296**	**829**	**96,116**	**45,765**	**410,145**	**1,970,373**	**84,732**	**6,621,256**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**186,450**	**-**	**186,450**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**(15,454)**	**(15,454)**
Transfer from retained profits	**-**	**-**	**-**	**-**	**13,488**	**(13,488)**	**-**	**-**
Dividends declared	**-**	**-**	**-**	**-**	**-**	**(54,896)**	**-**	**(54,896)**
At 30 June 2014 (Unaudited)	**4,013,296**	**829**	**96,116**	**45,765**	**423,633**	**2,088,439**	**69,278**	**6,737,356**

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 2014 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 in note 18 under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

At 30 June 2014 and 31 December 2013, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Within one year	**8,139**	9,771
In the second to fifth years, inclusive	**3,319**	5,677
	11,458	15,448

(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 2014 and 31 December 2013, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Within one year	**52,034**	51,499
In the second to fifth years, inclusive	**39,627**	34,698
	91,661	86,197

Notes to Interim Financial Statements

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 2014 (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	213,312	213,312	81,753	–	–
Transaction-related contingencies	16,991	8,495	3,799	–	–
Trade-related contingencies	30,135	6,027	5,771	–	–
Forward forward deposits placed	–	–	–	–	–
Forward asset purchases	637	637	127	–	–
	261,075	228,471	91,450	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	1,618,184	7,673	–	2,303	787
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	82,657	41,329	41,329	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,960,966	–	–	–	–
	5,922,882	277,473	132,779	2,303	787
Capital commitments contracted for, but not provided in the consolidated statement of financial position	4,025				

Notes to Interim Financial Statements

27. OFF-BALANCE SHEET EXPOSURE (Continued)

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

	31 December 2013 (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	172,109	172,109	61,526	–	–
Transaction-related contingencies	11,080	5,540	2,150	–	–
Trade-related contingencies	53,464	10,693	10,216	–	–
Forward forward deposits placed	6,916	6,916	1,383	–	–
Forward asset purchases	2,970	2,970	594	–	–
	246,539	198,228	75,869	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	434,721	3,101	19	771	610
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	115,829	57,914	57,914	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,982,241	–	–	–	–
	4,779,330	259,243	133,802	771	610
Capital commitments contracted for, but not provided in the consolidated statement of financial position	4,064				

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.

At 30 June 2014 and 31 December 2013, 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	
	2014	2013
	(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	**6,865**	7,569
Deposit interest and commitment fees paid to the ultimate holding company	**3,238**	1,157
Key management personnel compensation:		
– short term employee benefits	**3,423**	3,247
– post-employment benefits	**227**	216
	3,650	3,463
Interest income received from key management personnel	**1**	1
Interest expense paid to key management personnel	**13**	12
Commission income from key management personnel	**1**	10

	30 June 2014	31 December 2013
	(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	**24,207**	416
Deposits from the ultimate holding company, fellow subsidiaries and an affiliated company	**1,241,884**	1,231,279
Bank loan from a fellow subsidiary	**488,000**	496,000
Interest payable to the fellow subsidiaries	**82**	155
Loans to key management personnel	**227**	217
Deposits from key management personnel	**2,970**	2,623
Interest payable to key management personnel	**1**	–

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Fixed rate financial instruments

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

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

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

	30 June 2014 (Unaudited)			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets:				
Derivative financial instruments	**–**	**2,303**	**–**	**2,303**
Available-for-sale financial assets	**–**	**–**	**6,804**	**6,804**
	–	**2,303**	**6,804**	**9,107**
Financial liabilities:				
Derivative financial instruments	**–**	**787**	**–**	**787**

	31 December 2013 (Audited)			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets:				
Derivative financial instruments	–	771	–	771
Available-for-sale financial assets	–	–	6,804	6,804
	–	771	6,804	7,575
Financial liabilities:				
Derivative financial instruments	–	610	–	610

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 2014, the effects of discounting are considered insignificant for the Level 2 financial instruments.

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

For financial instruments measured at fair value on a recurring basis, the Group determines whether transfer has occurred between levels in the hierarchy by 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 valuation of financial instruments required for financial reporting purposes, including Level 3 fair values, at the end of each reporting period. The impact due to changes in fair value of Level 3 financial instruments is insignificant to the Group.

Notes to Interim Financial Statements

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

For the period ended 30 June 2014 and the year ended 31 December 2013, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the period ended 30 June 2014 and the year ended 31 December 2013, there were no issues and settlements related to the Level 3 financial instruments.

There was no gain or loss and no OCI 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 2014 and the year ended 31 December 2013.

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

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 2014 (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	913,291	2,796,494	–	–	–	–	–	3,709,785
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	634,445	508,347	–	–	–	1,142,792
Loans and advances and receivables	742,056	1,300,292	1,297,298	3,598,611	6,474,924	14,318,590	106,574	27,838,345
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	218,348	903,867	2,638,713	886,600	–	–	4,647,528
Other assets	118	57,685	8,177	5,789	–	–	45,868	117,637
Foreign exchange contracts (gross)	–	1,365,222	252,962	–	–	–	–	1,618,184
Total financial assets	1,655,465	5,738,041	3,096,749	6,751,460	7,361,524	14,318,590	159,246	39,081,075
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	38,760	227,731	150,000	50,000	–	–	–	466,491
Customer deposits at amortised cost	6,796,227	8,296,319	11,506,114	3,348,968	584,555	–	–	30,532,183
Certificates of deposit issued at amortised cost	–	579,962	–	665,467	–	–	–	1,245,429
Unsecured bank loans at amortised cost	–	337,878	1,319,344	–	–	–	–	1,657,222
Other liabilities	597	86,420	29,869	17,745	17,017	–	158,119	309,767
Foreign exchange contracts (gross)	–	1,363,953	252,715	–	–	–	–	1,616,668
Total financial liabilities	6,835,584	10,892,263	13,258,042	4,082,180	601,572	–	158,119	35,827,760

Notes to Interim Financial Statements

30. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

	31 December 2013 (Audited)							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Cash and short term placements	1,228,656	2,733,718	–	–	–	–	–	3,962,374
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	987,374	208,617	–	–	–	1,195,991
Loans and advances and receivables	604,386	1,121,638	1,572,326	3,474,264	6,519,184	13,974,951	128,768	27,395,517
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	1,110,396	651,539	2,355,704	663,266	–	–	4,780,905
Other assets	123	60,006	3,435	4,605	–	–	45,552	113,721
Foreign exchange contracts (gross)	–	433,194	1,527	–	–	–	–	434,721
Total financial assets	1,833,165	5,458,952	3,216,201	6,043,190	7,182,450	13,974,951	181,124	37,890,033
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	24,555	258,846	100,000	100,000	–	–	–	483,401
Customer deposits at amortised cost	6,422,009	9,153,909	10,981,098	3,101,896	315,440	–	–	29,974,352
Certificates of deposit issued at amortised cost	–	–	199,876	1,184,767	409,849	–	–	1,794,492
Unsecured bank loans at amortised cost	–	496,000	–	1,167,705	–	–	–	1,663,705
Other liabilities	416	85,850	31,784	32,462	8,576	–	168,850	327,938
Foreign exchange contracts (gross)	–	433,042	1,518	–	–	–	–	434,560
Total financial liabilities	6,446,980	10,427,647	11,314,276	5,586,830	733,865	–	168,850	34,678,448

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 of Directors (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 and reviewed regularly by the Group's management, Credit Risk Management Committee, Credit Committee, Assets and Liabilities Management Committee ("ALCO"), 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 Public Bank (Hong Kong) and Public Finance 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 respective ALCOs of Public Bank (Hong Kong) and Public Finance against limits approved by the respective Boards.

(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 Board.

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

At 30 June 2014, 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 2013: HK$6 million) mainly as a result of foreign exchange impact arising from net structural position of RMB denominated operating capital.

Notes to Interim Financial Statements

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 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). Segregation of duties in key credit functions is in place to ensure separate credit control and monitoring. Management and recovery of problem credits are handled by an independent work-out team.

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

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

Compliance Department conducts compliance test at selected business units on identified high risk areas for adherence to regulatory and operational requirements and credit polices.

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

ALCO 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.

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

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

Notes to Interim Financial Statements

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

The examples of liquidity risk related metrics of Public Bank (Hong Kong) and Public Finance include internal minimum liquidity ratio of 30% and internal trigger point of liquidity ratio which are higher than the aforesaid minimum liquidity ratio; cash flow mismatches under normal and different stressed scenarios; concentration related limits such as top ten deposits as a percentage of total deposits and the reliance of banking facilities, and maturity profile of major assets and liabilities (including on-and-off-balance sheet items).

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

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

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

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

Notes to Interim Financial Statements

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 control 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.

Capital adequacy ratios

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. 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.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)
Capital adequacy ratios (Continued)

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Group:		
Consolidated CET 1 Capital Ratio	**12.9%**	12.7%
Consolidated Tier 1 Capital Ratio	**12.9%**	12.7%
Consolidated Total Capital Ratio	**14.2%**	14.0%
Public Bank (Hong Kong):		
Consolidated CET 1 Capital Ratio	**17.0%**	17.0%
Consolidated Tier 1 Capital Ratio	**17.0%**	17.0%
Consolidated Total Capital Ratio	**18.2%**	18.1%

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

Capital disclosures
The consolidated capital adequacy ratios of the Group are 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 ratios 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 ("Winton Financial") and Winton Motors, Limited. Deductions from the capital base include investments in subsidiaries and other exposures.

The consolidated capital adequacy ratios of Public Bank (Hong Kong) are 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 ratios 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 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 2014				
	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	630,700	247	116	141	50	584,281	92.6	1,240	1,240
Building and construction, property development and investment									
Property development	330,332	128	–	–	–	272,129	82.4	–	–
Property investment	6,580,534	2,547	–	313	–	6,012,320	91.4	6,473	6,473
Civil engineering works	122,926	50	393	619	223	31,501	25.6	393	393
Electricity and gas	754	–	–	–	–	749	99.3	–	–
Recreational activities	7,379	3	–	2	–	7,220	97.8	–	–
Information technology	35,038	14	–	2	–	6,613	18.9	–	–
Wholesale and retail trade	199,999	76	414	466	54	178,650	89.3	1,714	1,714
Transport and transport equipment	4,338,190	1,443	212	270	38	4,280,826	98.7	534	271
Hotels, boarding houses and catering	171,715	66	–	44	–	153,560	89.4	–	–
Financial concerns	339,594	145	–	26	–	188,425	55.5	–	–
Stockbrokers									
Margin lending	209,931	81	–	28	–	61,132	29.1	–	–
Others	1,231	–	–	–	–	1,231	100.0	–	–
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	56,872	22	–	12	–	36,237	63.7	–	–
Others	36,972	14	–	–	–	34,994	94.7	–	–
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	102,702	40	–	1	–	102,702	100.0	–	–
Loans for the purchase of other residential properties	7,806,922	2,726	–	339	–	7,712,536	98.8	15,817	13,725
Loans for credit card advances	12,625	5	–	99	194	–	–	16	–
Loans for other business purposes	21,925	8	–	2	–	21,925	100.0	–	–
Loans for other private purposes	3,737,480	13,147	74,215	212,144	223,349	231,826	6.2	107,070	69,715
Trade finance	850,825	329	5,026	66	–	766,313	90.1	10,053	10,053
Other loans and advances	92,089	36	–	2	–	80,080	87.0	–	–
Sub-total	25,686,735	21,127	80,376	214,576	223,908	20,765,250	80.8	143,310	103,584
Loans and advances for use outside Hong Kong	1,988,107	1,874	8,926	3,748	8,798	1,790,858	90.1	8,865	8,534
Total loans and advances (excluding trade bills and other receivables)	27,674,842	23,001	89,302	218,324	232,706	22,556,108	81.5	152,175	112,118

Supplementary Financial Information (Unaudited)

ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

31 December 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	664,051	238	38	409	273	360,514	54.3	831	793
Building and construction, property development and investment									
Property development	448,905	157	–	–	–	279,412	62.2	–	–
Property investment	6,402,033	2,234	–	–	–	6,006,607	93.8	3,122	3,122
Civil engineering works	123,211	47	–	7	–	32,392	26.3	–	–
Electricity and gas	801	–	–	–	–	770	96.1	–	–
Recreational activities	2,463	1	–	–	–	2,301	93.4	–	–
Information technology	34,496	12	–	248	247	6,119	17.7	–	–
Wholesale and retail trade	182,453	61	17	530	617	158,003	86.6	24	24
Transport and transport equipment	4,334,141	1,324	99	61	228	4,261,110	98.3	267	267
Hotels, boarding houses and catering	62,615	22	–	–	–	56,683	90.5	–	–
Financial concerns	305,339	119	–	47	–	149,130	48.8	–	–
Stockbrokers									
Margin lending	151,937	53	–	40	–	29,937	19.7	–	–
Others	1,210	–	–	–	–	1,210	100.0	–	–
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	29,629	10	–	1	–	2,520	8.5	–	–
Others	88,285	31	–	25	–	88,285	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	112,079	39	–	–	–	112,079	100.0	–	–
Loans for the purchase of other residential properties	7,585,505	2,387	–	–	–	7,482,308	98.6	7,431	6,940
Loans for credit card advances	13,595	5	104	176	111	–	–	104	99
Loans for other business purposes	16,657	6	–	4	–	16,657	100.0	–	–
Loans for other private purposes	3,709,242	10,966	90,178	491,621	492,063	181,691	4.9	129,719	93,264
Trade finance	782,470	273	5,020	5,099	–	681,929	87.2	10,041	10,041
Other loans and advances	98,016	34	–	–	–	84,408	86.1	–	–
Sub-total	25,149,133	18,019	95,456	498,268	493,539	19,994,065	79.5	151,539	114,550
Loans and advances for use outside Hong Kong	2,074,770	2,766	21,767	14,385	1,418	1,795,804	86.6	20,298	19,329
Total loans and advances (excluding trade bills and other receivables)	27,223,903	20,785	117,223	512,653	494,957	21,789,869	80.0	171,837	133,879

The advances to customers are classified by industry sectors based on the industry in which the granted loans are used. In those cases where loans cannot be classified with reasonable certainty, they are classified according to the known principal activities of the borrowers or by reference to the assets financed according to the loan documentation.

Supplementary Financial Information (Unaudited)

NON-BANK MAINLAND CHINA EXPOSURES

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

	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 2014				
Mainland China entities	**1,351**	**187**	**1,538**	**9**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**355**	**–**	**355**	**–**
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland China exposures	**–**	**–**	**–**	**–**
	1,706	**187**	**1,893**	**9**

	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 2013				
Mainland China entities	1,457	154	1,611	18
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	360	–	360	–
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland China exposures	–	–	–	–
	1,817	154	1,971	18

Supplementary Financial Information (Unaudited)

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 2014				
1. Asia Pacific excluding Hong Kong,				
of which:	**4,332**	**399**	**682**	**5,413**
China	**2,313**	**399**	**512**	**3,224**
2. Western Europe	**1,438**	**–**	**260**	**1,698**

	Banks and other financial institutions HK$'million	Public sector entities HK$'million	Others HK$'million	Total HK$'million
As at 31 December 2013				
1. Asia Pacific excluding Hong Kong,				
of which:	4,708	423	679	5,810
China	2,244	423	506	3,173
Malaysia	886	–	43	929
2. Western Europe, of which:	1,541	–	148	1,689
France	878	–	–	878

Supplementary Financial Information (Unaudited)

CURRENCY RISK

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

	Spot assets HK$'million	Spot liabilities HK$'million	Forward purchases HK$'million	Forward sales HK$'million	Net long/(short) position HK$'million	Structural assets HK$'million
As at 30 June 2014						
USD	**3,817**	**2,967**	**352**	**1,135**	**67**	**–**
RMB	**531**	**595**	**–**	**14**	**(78)**	**625**
AUD	**1,058**	**1,203**	**233**	**92**	**(4)**	**–**
Others	**573**	**927**	**719**	**366**	**(1)**	**–**
	5,979	**5,692**	**1,304**	**1,607**	**(16)**	**625**

	Spot assets HK$'million	Spot liabilities HK$'million	Forward purchases HK$'million	Forward sales HK$'million	Net long/(short) position HK$'million	Structural assets HK$'million
As at 31 December 2013						
USD	2,951	2,599	53	378	27	–
RMB	445	516	–	2	(73)	640
Others	1,873	2,132	294	38	(3)	–
	5,269	5,247	347	418	(49)	640

LIQUIDITY RATIOS

	For the six months ended 30 June **2014**	2013
Average liquidity ratios:		
Public Bank (Hong Kong)	**42.0%**	40.6%
Public Finance	**106.6%**	102.8%

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 operating environment for financial institutions in Hong Kong remained challenging with intensified competition for loans and deposit takings leading to narrowing of yield on new loans and rising funding cost on customer deposits. The slow down in economic growth momentum and tightening monetary policies to address deteriorating credit conditions in Mainland China had impacted business developments of Hong Kong enterprises, which have business operations in Mainland China. The demand for property mortgage loans in Hong Kong continued to be affected by the low volume of property transactions during the period under review, caused by the prudential measures implemented by the Hong Kong Government and banking regulatory authority.

FINANCIAL REVIEW

Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) grew by HK$451.4 million or 1.7% to HK$27.73 billion as at 30 June 2014 from HK$27.28 billion as at 31 December 2013. The Group's deposits from customers also grew by HK$557.8 million or 1.9% to HK$30.53 billion as at 30 June 2014 from HK$29.97 billion as at 31 December 2013. Total assets of the Group stood at HK$41.17 billion as at 30 June 2014.

Public Bank (Hong Kong)

During the period under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) increased by HK$298.4 million or 1.3% to HK$22.85 billion as at 30 June 2014 from HK$22.55 billion as at 31 December 2013. Deposits from customers (excluding intra-group's deposits) increased by HK$514.8 million or 2.0% to HK$26.72 billion as at 30 June 2014 from HK$26.20 billion as at 31 December 2013.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) stood at 18.2% as at 30 June 2014.

Public Finance

Total loans and advances of Public Finance increased by HK$154.5 million or 3.4% to HK$4.69 billion as compared to the position as at 31 December 2013. Deposits from customers increased by HK$25.7 million or 0.6% to HK$4.08 billion as at 30 June 2014 from HK$4.05 billion as at 31 December 2013.

Financial performance

For the six months ended 30 June 2014, the Group's profit after tax recorded a marginal decline of HK$9.2 million or 4.7% to HK$186.5 million as compared to the corresponding period in 2013. The decline in earnings of the Group for the period under review was mainly attributed to the decrease in net interest income due to narrowing net interest margin on the Group's interest-bearing assets.

The Group's basic earnings per share for the six months ended 30 June 2014 was HK$0.17. The Board had declared an interim dividend of HK$0.05 per share on 26 June 2014, payable on 30 July 2014.

During the period under review, total interest income of the Group decreased by HK$28.4 million or 3.4% to HK$805.0 million, and total interest expense increased by HK$24.2 million or 14.8% to HK$187.2 million due to increase in cost of funding of non-bank customer deposits. As a result, the Group's net interest income decreased by HK$52.6 million or 7.9% to HK$617.8 million. Other operating income from loan transactions, stockbroking and other business activities of the Group recorded a decrease of HK$7.6 million or 6.7% to HK$105.8 million in the period under review, mainly due to lower income from stockbroking activities.

Operating expenses of the Group decreased marginally by HK$6.9 million or 1.8% to HK$379.2 million mainly due to the decrease in marketing costs.

Impairment allowance for loans and advances decreased by HK$43.0 million or 26.5% to HK$119.3 million due to recovery of some impaired loans and improvement in the loan asset quality.

Management Discussion and Analysis

FINANCIAL REVIEW (Continued)

Asset quality

The Group's impaired loans to total loans ratio improved to 0.55% as at 30 June 2014 from 0.63% as at 31 December 2013 mainly 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.

Branch network

Public Bank (Hong Kong), a subsidiary of the Company, has 32 branches in Hong Kong and 3 branches in Shenzhen in Mainland 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. Another operating subsidiary of the Company, Winton Financial which operates under a money lenders license, 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 2014 to serve its customers. During the period under review, the Group did not open any new branches in light of the market conditions.

The Group will continue to identify suitable locations for the relocation of the branches to better sites and will open new branches in appropriate locations where feasible to expand its customer reach and to further develop its banking related financial services and customer base.

Segmental information

The Group's businesses comprise three main segments: (i) retail and commercial banking businesses, (ii) stockbroking and wealth management services, and (iii) other businesses. 96% of the Group's operating income and 94% 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 2013, the Group's operating income from retail and commercial banking businesses decreased by HK$51.3 million or 6.9% to HK$696.0 million due to narrowing net interest margin with increase in cost of customer deposits.

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 2014, 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$1.66 billion as at 30 June 2014. 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 0.24 times as at 30 June 2014 as compared to 0.25 times as at 31 December 2013. The Group's bank borrowings have remaining maturity periods of less than one year. In the normal course of its commercial banking business, Public Bank (Hong Kong) had 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)

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 developments, 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 share option scheme approved by shareholders on 28 February 2002. In the first half year of 2014, no share options to subscribe for shares in the Company were exercised by employees of the Group. As at 30 June 2014, options to subscribe for 24,075,000 shares in the Company remained unexercised.

As at 30 June 2014, the Group's staff force stood at 1,411 employees. For the six months ended 30 June 2014, the Group's total staff related costs amounted to HK$233.4 million.

PROSPECTS

The economic outlook of Hong Kong and Mainland China is anticipated to remain challenging in the second half of 2014. Despite the US's continuing tapering of quantitative easing monetary policies, the timing of the interest rate rise cycle still remains uncertain. The potential increase in interest rates on loans is expected to exert pressure on debt servicing ability and purchasing power of consumers in Hong Kong. The potential rise in funding costs of non-bank customer deposits, the escalation of labour costs and property related costs, and increase demand for compliance related resources in meeting the increased regulatory and supervisory requirements, etc., are expected to impact the earnings of financial institutions in Hong Kong. Despite the foregoing, the Group will continue to seek long-term business and profitability growth and take steps to align the business strategies of the Group with its corporate mission and goals. The Group will also adopt prudent capital management and liquidity risk management to preserve adequate buffer 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 of banking sector will add pressure on the cost of customer deposits and inter-bank borrowings, and adversely impact the Group's 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 appropriate 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 2014.

Other Information

INTERIM DIVIDEND

The Board has on 26 June 2014 declared an interim dividend of HK$0.05 (2013: HK$0.05) per share payable on 30 July 2014 to shareholders whose names appear on the register of members of the Company on 17 July 2014 (as clarified on 27 June 2014).

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 Group's Annual Report 2013 up to 18 July 2014 (being the date of approval of the Group's Interim Report 2014) are set out below:

Positions held with the Company and other members of the Group

1. Mr. Tang Wing Chew and Mr. Lai Wan, the Independent Non-executive Directors of the Company, had been appointed as Independent Non-executive Directors, members of Audit Committee, Risk Management Committee and Remuneration Committee of each of Public Bank (Hong Kong) and Public Finance on 1 March 2014.

2. Tan Sri Dato' Sri Tay Ah Lek resigned as a Non-executive Director and ceased as a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company with effect from 21 April 2014.

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

Other Information

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2014, the Directors' interests and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules were as follows:

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

		Number of ordinary shares					
Interests in	Name of Directors	Directly beneficially owned	Through spouse or minor children	Through controlled corporations	Other interests	Total	Percentage of interests in the issued share capital %
1. The Company	Tan Sri Dato' Sri Dr. Teh Hong Piow	–	–	804,017,920	–	804,017,920	73.2312
	Tan Yoke Kong	210,000	–	–	*330,000	540,000	0.0492
	Chong Yam Kiang	20,000	–	–	–	20,000	0.0018
	Lee Huat Oon	20,000	–	–	–	20,000	0.0018
	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	21.7226
	Tan Sri Datuk Seri Utama Thong Yaw Hong	7,633,342	365,294	326,154	–	8,324,790	0.2144
	Tan Yoke Kong	40,588	–	–	–	40,588	0.0010
	Chong Yam Kiang	17,128	–	–	–	17,128	0.0004
	Lee Huat Oon	57,402	–	–	–	57,402	0.0015
	Dato' Chang Kat Kiam	114,215	–	–	–	114,215	0.0029
	Lee Chin Guan	250,028	–	–	–	250,028	0.0064
	Lai Wan	–	16,959	–	–	16,959	0.0004
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.

Other Information

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

(b) Long positions in underlying shares of the Company

Name of Directors	At the beginning of the period	Granted during the period	Exercised during the period	At the end of the period	Capacity	Exercise price HK$	Exercise period
	Number of ordinary shares attached to share options						
Tan Yoke Kong	1,318,000	–	–	1,318,000	Beneficial Owner	6.35	10.6.2005 to 9.6.2015
Lee Huat Oon	3,170,000	–	–	3,170,000	Beneficial Owner	6.35	10.6.2005 to 9.6.2015
Dato' Chang Kat Kiam	1,380,000	–	–	1,380,000	Beneficial Owner	6.35	10.6.2005 to 9.6.2015
Lee Chin Guan	350,000	–	–	350,000	Beneficial Owner	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 share option scheme of the Company are only exercisable during certain periods as notified by the Board or the Share Option Committee to each grantee which it may in its absolute discretion determine from time to time before the expiry of the share options on 9 June 2015.

(c) Long positions in underlying shares of Public Bank, an associated corporation

Name of Directors	At the beginning of the period	Granted during the period	Exercised during the period	Directly beneficially owned	Through spouse or minor children	Through controlled corporations	At the end of the period
	Number of ordinary shares entitled under rights issue						
Tan Sri Dato' Sri Dr. Teh Hong Piow	–	84,329,990	–	2,246,480	–	82,083,510	84,329,990
Tan Sri Datuk Seri Utama Thong Yaw Hong	–	832,478	–	763,334	36,529	32,615	832,478
Tan Yoke Kong	–	4,058	–	4,058	–	–	4,058
Chong Yam Kiang	–	1,712	–	1,712	–	–	1,712
Lee Huat Oon	–	5,740	–	5,740	–	–	5,740
Dato' Chang Kat Kiam	–	11,421	–	11,421	–	–	11,421
Lee Chin Guan	–	25,002	–	25,002	–	–	25,002
Lai Wan	–	1,695	–	–	1,695	–	1,695

Note: Public Bank announced a renounceable rights issue of 350,212,513 to subscribe for new ordinary shares of RM1.00 each in Public Bank on the basis of one rights share for every ten existing Public Bank shares at an issue price of RM13.80 per rights share with an exercise period from 23 June 2014 to 18 July 2014.

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 share option scheme approved on 28 February 2002, the Board 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, a former Director 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 2014.

	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
Dato' Chang Kat Kiam	1,380,000	–	–	1,380,000	6.35
Lee Chin Guan	350,000	–	–	350,000	6.35
Former Director					
Tan Sri Dato' Sri Tay Ah Lek	1,230,000	–	–	1,230,000	6.35
Employees working under "continuous contracts" for the purposes of the Employment Ordinance other than the Directors and a former Director as disclosed above	16,917,000	–	290,000	16,627,000	6.35
	24,365,000	–	290,000	24,075,000	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 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 2014.

(iii) The remaining contractual life of the 24,075,000 outstanding options was 0.94 year as at 30 June 2014.

(iv) The share options outstanding as at 30 June 2014 can only be exercised in future open exercise periods.

Other Information

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2014, 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. (currently known as Mizuho Bank, Ltd.) as mandated lead arranger and Mizuho Corporate Bank, Ltd., Hong Kong Branch (currently known as Mizuho 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.

LOAN AGREEMENTS WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER (Continued)

(b) In September 2013, the Company, as the borrower, entered into a supplemental agreement (the "Maybank Supplemental Agreement") to the facility agreement dated 21 September 2010 (the "Maybank Facility Agreement") in respect of a term loan facility in an aggregate amount of up to HK$300,000,000 (the "Maybank Facility") with Malayan Banking Berhad, Hong Kong Branch ("Maybank"), as the lender. The Maybank Facility was used to refinance the Company's existing indebtedness for general corporate funding requirements. The maturity date of the Maybank Facility is extended to 30 September 2014.

The Maybank Supplemental Agreement provides, among other things, that it is an event of default if Public Bank does not or ceases to beneficially own, a minimum of more than 50% of the issued share capital of, and ownership interests in, the Company free from any security.

In the event of default occurs, Maybank may (i) cancel the Maybank Facility immediately; (ii) declare that all or part of the loan, together with accrued interest, and all other amounts accrued or outstanding under the Finance Document (as defined in the Maybank Facility Agreement and the Maybank Supplemental Agreement) be immediately due and payable; and/or (iii) declare that all or part of the loan be payable on demand.

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

The aggregate level of facilities (excluding facilities arranged solely for the purpose of contingency funding plan) of the Group which may be affected by such breach and required to be disclosed under Rule 13.18 of the Listing Rules amounts to approximately HK$1.2 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 2014.

Other Information

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 2014 Interim Report, in compliance with the Code Provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules except for the deviations under Code Provision A.4.1 and Code Provision E.1.2 of the CG Code as explained below with considered reasons for such deviations.

Under Code Provision A.4.1 of the CG Code, non-executive directors shall be appointed for a specific term and subject to re-election. The Board is of the view that the current practice of appointing Non-executive Directors without a specific term but otherwise subject to rotation and re-election by shareholders at an annual general meeting ("AGM") is fair and reasonable, and does not intend to change the current practice at the moment.

Under Code Provision E.1.2 of the CG Code, the chairman of the board shall attend the AGM. Tan Sri Dato' Sri Dr. Teh Hong Piow, the Chairman of the Company, was absent from the 2014 AGM of the Company held in March 2014 due to other engagement. The AGM was chaired by the Co-Chairman of the Company, Tan Sri Datuk Seri Utama Thong Yaw Hong.

The Board will keep on reviewing the relevant Bye-laws and propose any amendments, if necessary, to ensure compliance with the CG 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 2014 Interim Report has been reviewed by the Company's Audit Committee which comprises four 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, 18 July 2014