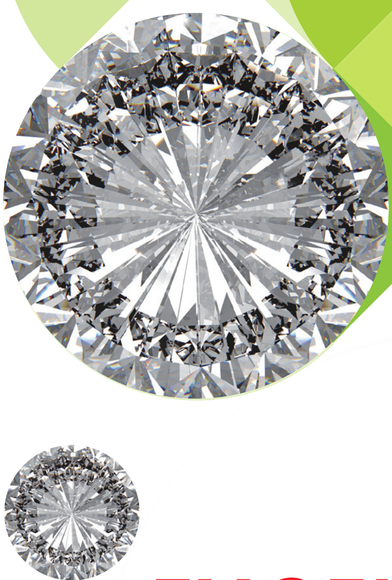
大眾金融控股有限公司

PUBLIC FINANCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 626

2016 INTERIM REPORT



EXCELLENCE IS OUR COMMITMENT

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

Lai Wan (Co-Chairman)
Lee Chin Guan
Tang Wing Chew

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
The Belvedere Building
69 Pitts Bay Road
Pembroke HM 08
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 **2016** **(Unaudited)** **HK$'000**	2015 (Unaudited) HK$'000
Interest income	7	**832,752**	847,426
Interest expense	7	**(163,924)**	(194,483)
NET INTEREST INCOME		**668,828**	652,943
Other operating income	8	**100,718**	118,855
OPERATING INCOME		**769,546**	771,798
Operating expenses	9	**(396,065)**	(398,061)
Changes in fair value of investment properties		**(439)**	14,017
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**373,042**	387,754
Impairment allowances for loans and advances and receivables	10	**(128,058)**	(126,481)
PROFIT BEFORE TAX		**244,984**	261,273
Tax	11	**(44,619)**	(42,448)
PROFIT FOR THE PERIOD		**200,365**	218,825
ATTRIBUTABLE TO:			
Owners of the Company		**200,365**	218,825
EARNINGS PER SHARE (HK$)	13		
Basic		**0.182**	0.199
Diluted		**0.182**	0.199

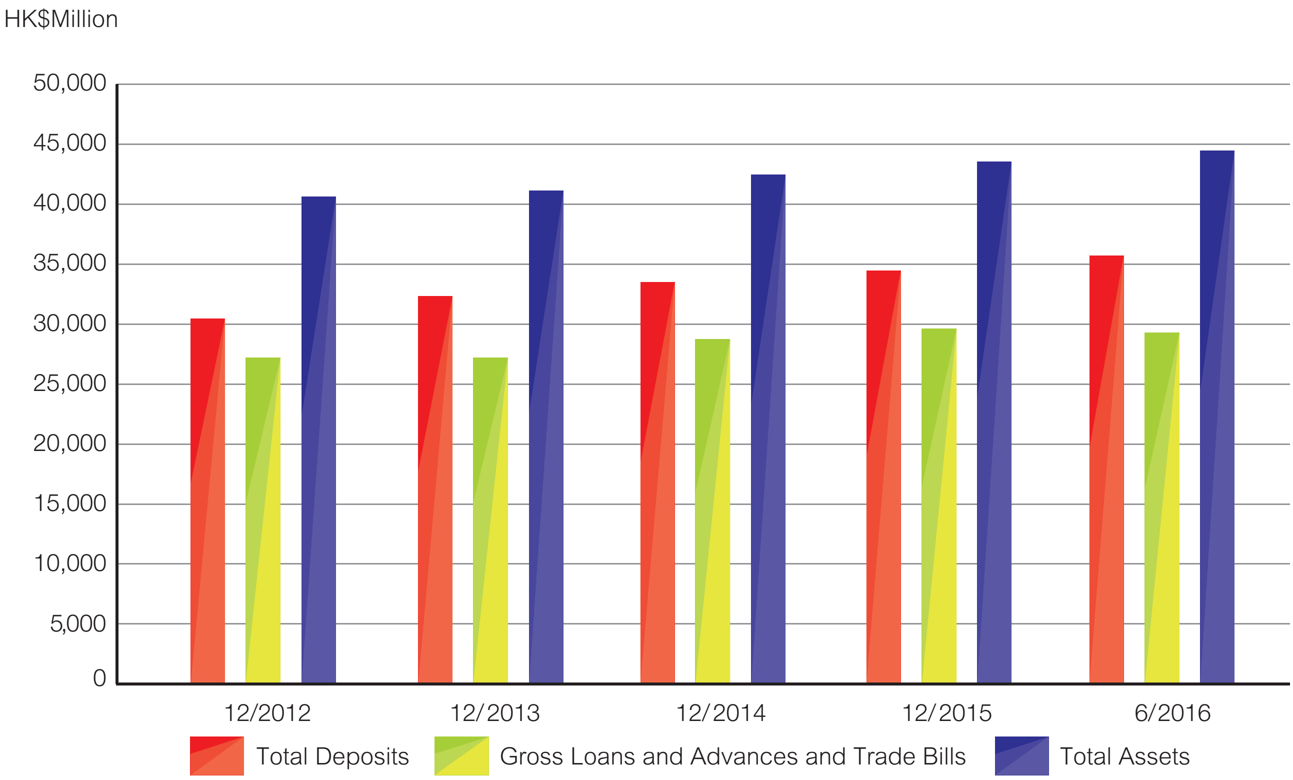
Condensed Consolidated Statement of Comprehensive Income

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT FOR THE PERIOD	**200,365**	218,825
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange loss on translating foreign operations, net of tax	**(16,025)**	(170)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**184,340**	218,655
ATTRIBUTABLE TO:		
Owners of the Company	**184,340**	218,655

Five-year Financial Summary

PROFIT

FINANCIAL POSITION



Condensed Consolidated Statement of Financial Position

	Notes	**30 June 2016 (Unaudited) HK$'000**	31 December 2015 (Audited) HK$'000
ASSETS			
Cash and short term placements	14	**4,907,628**	3,928,212
Placements with banks and financial institutions maturing after one month but not more than twelve months	15	**1,497,333**	1,018,133
Derivative financial instruments		**2,605**	3,864
Loans and advances and receivables	16	**29,009,597**	29,587,136
Available-for-sale financial assets	17	**6,804**	6,804
Held-to-maturity investments	18	**5,321,454**	5,342,872
Investment properties	19	**308,133**	267,384
Property and equipment	20	**117,668**	108,428
Land held under finance leases	21	**646,207**	643,223
Interest in a joint venture		**1,892**	1,892
Deferred tax assets		**23,680**	25,986
Tax recoverable		**13**	–
Goodwill		**2,774,403**	2,774,403
Intangible assets	22	**718**	718
Other assets	23	**133,432**	112,007
TOTAL ASSETS		**44,751,567**	43,821,062
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**956,425**	984,093
Derivative financial instruments		**745**	588
Customer deposits at amortised cost	24	**33,394,354**	33,031,821
Certificates of deposit issued at amortised cost		**1,072,869**	499,977
Dividends payable		**54,896**	142,729
Unsecured bank loans at amortised cost	25	**1,629,641**	1,642,400
Current tax payable		**49,491**	22,207
Deferred tax liabilities		**27,051**	26,433
Other liabilities	23	**314,100**	348,263
TOTAL LIABILITIES		**37,499,572**	36,698,511
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		**109,792**	109,792
Reserves	26	**7,142,203**	7,012,759
TOTAL EQUITY		**7,251,995**	7,122,551
TOTAL EQUITY AND LIABILITIES		**44,751,567**	43,821,062

Condensed Consolidated Statement of Changes in Equity

	Note	For the six months ended 30 June **2016** **(Unaudited)** **HK$'000**	2015 (Unaudited) HK$'000
TOTAL EQUITY			
Balance at the beginning of the period		**7,122,551**	6,923,192
Profit for the period		**200,365**	218,825
Other comprehensive income in translation reserve		**(16,025)**	(170)
Total comprehensive income for the period		**184,340**	218,655
Dividends declared on shares	12(a)	**(54,896)**	(54,896)
Balance at the end of the period		**7,251,995**	7,086,951

Condensed Consolidated Statement of Cash Flows

	Notes	For the six months ended 30 June 2016 (Unaudited) HK$'000	2015 (Unaudited) HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**244,984**	261,273
Adjustments for:			
Dividend income from listed investments	8	**(39)**	(28)
Dividend income from unlisted investments	8	**(700)**	(800)
Depreciation of property and equipment and land held under finance leases	9	**13,735**	13,443
Net losses on disposal of property and equipment		**11**	20
Decrease in impairment allowances for loans and advances and receivables		**(1,831)**	(285)
Decrease/(increase) in fair value of investment properties		**439**	(14,017)
Exchange differences		**(16,196)**	(192)
Profits tax paid		**(14,424)**	(16,523)
Operating profit before changes in operating assets and liabilities		**225,979**	242,891
Decrease/(increase) in operating assets:			
Decrease/(increase) in placements with banks and financial institutions		**25,168**	(638,725)
Decrease/(increase) in loans and advances and receivables		**579,541**	(634,533)
Increase in held-to-maturity investments		**(72,850)**	(758,938)
Increase in other assets		**(21,425)**	(50,505)
Decrease in derivative financial instruments		**1,259**	379
		511,693	(2,082,322)
Increase in operating liabilities:			
(Decrease)/increase in deposits and balances of banks and other financial institutions at amortised cost		**(27,668)**	553
Increase in customer deposits at amortised cost		**362,533**	3,459,961
Increase/(decrease) in certificates of deposit issued at amortised cost		**572,892**	(166,015)
Increase in derivative financial instruments		**157**	1,660
(Decrease)/increase in other liabilities		**(34,163)**	130,959
		873,751	3,427,118
Net cash inflow from operating activities		**1,611,423**	1,587,687

Condensed Consolidated Statement of Cash Flows

	Notes	For the six months ended 30 June 2016 (Unaudited) HK$'000	2015 (Unaudited) HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Exchange differences		**(9)**	3
Purchases of investment properties	19	**(48,731)**	–
Purchases of property and equipment	20	**(18,418)**	(7,790)
Sales proceeds from disposal of property and equipment		**–**	25
Dividends received from listed investments		**39**	28
Dividends received from unlisted investments		**700**	800
Net cash outflow from investing activities		**(66,419)**	(6,934)
CASH FLOWS FROM FINANCING ACTIVITIES			
New unsecured bank loans		**100,000**	50,000
Repayment of unsecured bank loans		**(112,759)**	(37,869)
Dividends paid on shares		**(142,729)**	(120,771)
Net cash outflow from financing activities		**(155,488)**	(108,640)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,389,516**	1,472,113
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**4,227,310**	4,616,087
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**5,616,826**	6,088,200
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand	14	**1,079,307**	1,090,176
Money at call and short notice with an original maturity within three months	14	**3,828,321**	4,468,518
Placements with banks and financial institutions with an original maturity within three months		**709,198**	438,423
Held-to-maturity investments with an original maturity within three months		**–**	91,083
		5,616,826	6,088,200

Notes to Interim Financial Statements

1. CORPORATE AND GROUP INFORMATION

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

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

During the period, the principal activities of Public Financial Holdings Limited (the "Company") and its subsidiaries (the "Group") were the provision of banking, financial and related services, stockbroking, the letting of investment properties, the provision of financing to purchasers of taxis and public light buses, the trading of taxi cabs and taxi licences, and the leasing of taxis.

In the opinion of the Directors, the holding company and the ultimate holding company of the Company is Public Bank Berhad ("Public Bank"), which is incorporated in Malaysia.

Particulars of the Company's subsidiaries are as follows:

Name	Issued ordinary share capital HK$	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Public Bank (Hong Kong) Limited	2,854,045,000	100	–	Provision of banking, financial and related services
Public Bank (Nominees) Limited	100,000	–	100	Provision of nominee services
Public Credit Limited	5,000,000	–	100	Dormant
Public Futures Limited	2	–	100	Dormant
Public Pacific Securities Limited	12,000,000	–	100	Dormant
Public Financial Securities Limited	48,000,000	–	100	Securities brokerage
Public Finance Limited	671,038,000	–	100	Deposit-taking and financing
Public Financial Limited	10,100,000	–	100	Investment holding
Public Securities Limited	10,000,000	–	100	Securities brokerage
Public Securities (Nominees) Limited	10,000	–	100	Provision of nominee services
Winton (B.V.I.) Limited	61,773	100	–	Investment holding
Winton Financial Limited	4,000,010	–	100	Provision of financing for licensed public vehicles and provision of personal and short term loans and mortgage loans
Winton Motors, Limited	78,000	–	100	Trading of taxi licences and taxi cabs, and leasing of taxis

Note:

Except for Winton (B.V.I.) Limited, which is incorporated in the British Virgin Islands, all subsidiaries are incorporated in Hong Kong. Except for Public Bank (Hong Kong) Limited, which operates in Hong Kong and Mainland China, all subsidiaries operate in Hong Kong.

Notes to Interim Financial Statements

2. 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 Group's 2015 Annual Report.

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

3. BASIS OF CONSOLIDATON

The interim condensed consolidated financial statements include the interim financial statements of the Company and its subsidiaries for the period ended 30 June 2016.

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

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

(i) the contractual arrangement with the other vote holders of the investee;

(ii) rights arising from other contractual arrangements; and

(iii) the Group's voting rights and potential voting rights.

The interim financial statements of the subsidiaries are prepared for the same reporting period as the 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 above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

The subsidiaries consolidated for accounting purpose are 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.

Notes to Interim Financial Statements

4. BASIS OF CAPITAL DISCLOSURES

The Group has complied with the capital requirements during the interim reporting period related to capital base and the capital adequacy ratio as stipulated by the HKMA, and has referred to the Guideline on the Application of the Banking (Disclosure) Rules issued by the HKMA.

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

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

There are no major restrictions or impediments on the transfer of capital or funds among the members of the 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 ratio requirements are progressively increased during the period from 1 January 2013 to 1 January 2019, and include a phased introduction of a new capital conservation buffer ("CCB") ratio of 2.5%. Furthermore, the leverage ratio that forms part of Basel III implementation is under parallel run until January 2017 and relevant information has been submitted by Public Bank (Hong Kong) and Public Finance for regulatory monitoring since 2014. Additional capital requirements, including a new countercyclical capital buffer ("CCyB") ratio ranging from 0% to 2.5%, have been implemented since 1 January 2016. The CCyB ratio requirement for 2016 is 0.625%.

5. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

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

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

Notes to Interim Financial Statements

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are applied prospectively and do not have any material impact on the Group.

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

Amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments do not have any impact to the Group as there was no interest acquired in a joint operation during the period.

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

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the income statement and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

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

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. These amendments do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate its assets.

Notes to Interim Financial Statements

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs

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

• HKFRS 9	*Financial Instruments*[1]
• HKFRS 15	*Revenue from Contracts with Customers*[1]
• HKFRS 16	*Leases*[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

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

6. SEGMENT INFORMATION

Operating segment information

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

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

Notes to Interim Financial Statements

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

- 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.

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

	Retail and commercial banking businesses 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	
	2016 (Unaudited) HK$'000	2015 (Unaudited) HK$'000	**2016 (Unaudited) HK$'000**	2015 (Unaudited) HK$'000	**2016 (Unaudited) HK$'000**	2015 (Unaudited) HK$'000	**2016 (Unaudited) HK$'000**	2015 (Unaudited) HK$'000	**2016 (Unaudited) HK$'000**	2015 (Unaudited) HK$'000
Segment revenue										
External:										
Net interest income	**668,824**	652,936	**4**	7	**-**	–	**-**	–	**668,828**	652,943
Other operating income:										
Fees and commission income	**71,749**	74,072	**14,126**	28,893	**217**	356	**-**	–	**86,092**	103,321
Others	**5,769**	7,156	**7**	(56)	**8,850**	8,434	**-**	–	**14,626**	15,534
Inter-segment transactions:										
Fees and commission income	**-**	–	**-**	–	**8**	30	**(8)**	(30)	**-**	–
Operating income	**746,342**	734,164	**14,137**	28,844	**9,075**	8,820	**(8)**	(30)	**769,546**	771,798
Profit before tax	**238,786**	231,530	**3,445**	12,878	**2,753**	16,865	**-**	–	**244,984**	261,273
Tax									**(44,619)**	(42,448)
Profit for the period									**200,365**	218,825
Other segment information										
Depreciation of property and equipment and land held under finance leases	**(13,735)**	(13,443)	**-**	–	**-**	–	**-**	–	**(13,735)**	(13,443)
Changes in fair value of investment properties	**-**	–	**-**	–	**(439)**	14,017	**-**	–	**(439)**	14,017
Impairment allowances for loans and advances and receivables	**(128,058)**	(126,481)	**-**	–	**-**	–	**-**	–	**(128,058)**	(126,481)
Net losses on disposal of property and equipment	**(11)**	(20)	**-**	–	**-**	–	**-**	–	**(11)**	(20)

Notes to Interim Financial Statements

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

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

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000	**30 June 2016 (Unaudited) HK$'000**	31 December 2015 (Audited) HK$'000	**30 June 2016 (Unaudited) HK$'000**	31 December 2015 (Audited) HK$'000	**30 June 2016 (Unaudited) HK$'000**	31 December 2015 (Audited) HK$'000	**30 June 2016 (Unaudited) HK$'000**	31 December 2015 (Audited) HK$'000
Segment assets other than intangible assets and goodwill	**41,341,957**	40,423,442	**299,712**	324,052	**309,192**	270,569	**-**	–	**41,950,861**	41,018,063
Intangible assets	**-**	–	**718**	718	**-**	–	**-**	–	**718**	718
Goodwill	**2,774,403**	2,774,403	**-**	–	**-**	–	**-**	–	**2,774,403**	2,774,403
Segment assets	**44,116,360**	43,197,845	**300,430**	324,770	**309,192**	270,569	**-**	–	**44,725,982**	43,793,184
Unallocated assets:										
Interest in a joint venture									**1,892**	1,892
Deferred tax assets and tax recoverable									**23,693**	25,986
Total assets									**44,751,567**	43,821,062
Segment liabilities	**37,267,343**	36,380,740	**92,511**	118,515	**8,280**	7,887	**-**	–	**37,368,134**	36,507,142
Unallocated liabilities:										
Deferred tax liabilities and tax payable									**76,542**	48,640
Dividends payable									**54,896**	142,729
Total liabilities									**37,499,572**	36,698,511
Other segment information										
Additions to non-current assets – capital expenditure	**67,149**	17,422	**-**	–	**-**	–	**-**	–	**67,149**	17,422

Notes to Interim Financial Statements

6. SEGMENT INFORMATION (Continued)

Geographical information

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

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

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Segment revenue from external customers:		
Hong Kong	**731,067**	731,455
Mainland China	**38,479**	40,343
	769,546	771,798

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

The following table discloses the non-current assets information for geographical segments as at 30 June 2016 and 31 December 2015.

	30 June 2016	31 December 2015
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Non-current assets:		
Hong Kong	**3,831,841**	3,778,123
Mainland China	**17,180**	17,925
	3,849,021	3,796,048

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

Operating income or revenue from major customers

Operating income or revenue from transactions with each external customer, including a group of entities which are known to be under common control with that customer, amounts to less than 10% of the Group's total operating income or revenue.

Notes to Interim Financial Statements

7. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**775,631**	773,952
Short term placements and placements with banks	**29,675**	38,204
Held-to-maturity investments	**27,446**	35,270
	832,752	847,426
Interest expense on:		
Deposits from banks and financial institutions	**8,019**	2,066
Deposits from customers	**140,177**	176,716
Bank loans	**15,728**	15,701
	163,924	194,483

Interest income and interest expense for the six months ended 30 June 2016, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss, amounted to HK$832,752,000 and HK$163,924,000 (2015: HK$847,426,000 and HK$194,483,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2016 amounted to HK$2,802,000 (2015: HK$2,794,000).

Notes to Interim Financial Statements

8. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Fees and commission income:		
Retail and commercial banking	**72,672**	75,078
Wealth management services, stockbroking and securities management	**14,126**	28,893
	86,798	103,971
Less: Fees and commission expenses	**(706)**	(650)
Net fees and commission income	**86,092**	103,321
Gross rental income	**8,828**	8,189
Less: Direct operating expenses	**(49)**	(41)
Net rental income	**8,779**	8,148
Gains less losses arising from dealing in foreign currencies	**2,481**	11,510
Net gains/(losses) on derivative financial instruments	**1,860**	(5,863)
	4,341	5,647
Net losses on disposal of property and equipment	**(11)**	(20)
Dividend income from listed investments	**39**	28
Dividend income from unlisted investments	**700**	800
Others	**778**	931
	100,718	118,855

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

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

Notes to Interim Financial Statements

9. OPERATING EXPENSES

	For the six months ended 30 June 2016 (Unaudited) HK$'000	2015 (Unaudited) HK$'000
Staff costs:		
Salaries and other staff costs	**239,379**	239,171
Pension contributions	**10,924**	11,174
Less: Forfeited contributions	**(10)**	–
Net contribution to retirement benefit schemes	**10,914**	11,174
	250,293	250,345
Other operating expenses:		
Operating lease rentals on leasehold buildings	**33,413**	32,581
Depreciation of property and equipment and land held under finance leases	**13,735**	13,443
Administrative and general expenses	**36,336**	36,162
Others	**62,288**	65,530
Operating expenses before changes in fair value of investment properties	**396,065**	398,061

At 30 June 2016 and 2015, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The credits for the period ended 30 June 2016 arose in respect of staff who left the schemes during the period.

Notes to Interim Financial Statements

10. IMPAIRMENT ALLOWANCES

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net charge for/(write-back of) impairment losses and allowances:		
– loans and advances	**128,097**	125,803
– trade bills, accrued interest and receivables	**(39)**	678
	128,058	126,481
Net charge for/(write-back of) impairment losses and allowances:		
– individually assessed	**129,310**	124,675
– collectively assessed	**(1,252)**	1,806
	128,058	126,481
Of which:		
– new impairment losses and allowances (including any amount directly written off during the period)	**198,616**	212,404
– releases and recoveries	**(70,558)**	(85,923)
Net charge to the consolidated income statement	**128,058**	126,481

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

11. TAX

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current tax charge:		
Hong Kong	**36,685**	38,327
Overseas	**5,010**	6,145
Over-provision in prior periods	**–**	(2,502)
Deferred tax charge, net	**2,924**	478
	44,619	42,448

Notes to Interim Financial Statements

11. TAX (Continued)

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rates for the jurisdictions in which the 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 (i.e. statutory tax rates) to the effective tax rates, are as follows:

	For the six months ended 30 June 2016 (Unaudited)					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**220,359**		**24,625**		**244,984**	
Tax at the applicable tax rate	**36,359**	**16.5**	**6,156**	**25.0**	**42,515**	**17.4**
Estimated tax losses from previous periods utilised	**(16)**	**–**	**–**	**–**	**(16)**	**–**
Estimated tax effect of net expenses that are not deductible	**2,105**	**1.0**	**15**	**0.1**	**2,120**	**0.9**
Adjustments in respect of current tax of previous periods	**–**	**–**	**–**	**–**	**–**	**–**
Tax charge at the Group's effective rate	**38,448**	**17.5**	**6,171**	**25.1**	**44,619**	**18.3**

	For the six months ended 30 June 2015 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	236,197		25,076		261,273	
Tax at the applicable tax rate	38,972	16.5	6,269	25.0	45,241	17.3
Estimated tax losses from previous periods utilised	(1)	–	–	–	(1)	–
Estimated tax effect of net (income)/expenses that are not (taxable)/ deductible	(309)	(0.1)	19	0.1	(290)	(0.1)
Adjustments in respect of current tax of previous periods	(2,502)	(1.1)	–	–	(2,502)	(1.0)
Tax charge at the Group's effective rate	36,160	15.3	6,288	25.1	42,448	16.2

Notes to Interim Financial Statements

12. DIVIDENDS

(a) Dividends declared during the interim period

	For the six months ended 30 June			
	2016	2015	**2016**	2015
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$ per ordinary share	HK$ per ordinary share	**HK$'000**	HK$'000
Interim dividend	**0.05**	0.05	**54,896**	54,896

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

	For the six months ended 30 June			
	2016	2015	**2016**	2015
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$ per ordinary share	HK$ per ordinary share	**HK$'000**	HK$'000
Second interim dividend in respect of the previous period	**0.13**	0.11	**142,729**	120,771

13. 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$200,365,000 (2015: HK$218,825,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2015: 1,097,917,618) during the period.

(b) Diluted earnings per share

The Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2016.

All the share options expired on 10 June 2015. The share options outstanding during the period ended 30 June 2015 had no dilutive effect on the basic earnings per share. The calculation of diluted earnings per share for the period ended 30 June 2015 was based on the profit for the period of HK$218,825,000 and on the weighted average number of ordinary shares of 1,097,917,618, being the weighted average number of ordinary shares in issue of 1,097,917,618 during the period as used in the basic earnings per share calculation.

Notes to Interim Financial Statements

14. CASH AND SHORT TERM PLACEMENTS

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Cash on hand	**143,159**	158,425
Placements with banks and financial institutions	**936,148**	869,741
Money at call and short notice	**3,828,321**	2,900,046
	4,907,628	3,928,212

Over 90% (2015: over 90%) of the placements were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of an external credit agency, Moody's.

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

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

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

Over 90% (2015: over 90%) of the placements were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of an external credit agency, Moody's.

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

16. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Loans and advances to customers	**29,001,518**	29,535,457
Trade bills	**27,343**	64,552
Loans and advances, and trade bills	**29,028,861**	29,600,009
Accrued interest	**75,854**	80,779
	29,104,715	29,680,788
Other receivables	**25,153**	28,621
Gross loans and advances and receivables	**29,129,868**	29,709,409
Less: Impairment allowances for loans and advances and receivables		
– individually assessed	**(105,769)**	(106,509)
– collectively assessed	**(14,502)**	(15,764)
	(120,271)	(122,273)
Loans and advances and receivables	**29,009,597**	29,587,136

Over 90% (2015: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (2015: over 90%) of the collateral for the secured loans and advances and receivables were customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

Loans and advances and receivables are summarised as follows:

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Neither past due nor impaired loans and advances and receivables	**28,491,225**	29,127,545
Past due but not impaired loans and advances and receivables	**452,927**	392,599
Individually impaired loans and advances	**181,426**	185,253
Individually impaired receivables	**4,290**	4,012
Gross loans and advances and receivables	**29,129,868**	29,709,409

About 68% (2015: 66%) of "Neither past due nor impaired loans and advances and receivables" were property mortgage loans and hire purchase loans secured by properties, taxi licences, public light bus licences and vehicles.

Notes to Interim Financial Statements

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2016 (Unaudited)		31 December 2015 (Audited)	
	Gross amount HK$'000	Percentage of total loans and advances %	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	**94,962**	**0.33**	85,958	0.29
One year or less but over six months	**4,917**	**0.01**	15,568	0.05
Over one year	**25,925**	**0.09**	24,767	0.09
Loans and advances overdue for more than three months	**125,804**	**0.43**	126,293	0.43
Rescheduled loans and advances overdue for three months or less	**22,611**	**0.08**	35,162	0.12
Impaired loans and advances overdue for three months or less	**33,011**	**0.12**	23,798	0.08
Total overdue and impaired loans and advances	**181,426**	**0.63**	185,253	0.63

Notes to Interim Financial Statements

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**590**	288
One year or less but over six months	**167**	384
Over one year	**3,362**	3,181
Trade bills, accrued interest and other receivables overdue for more than three months	**4,119**	3,853
Impaired trade bills, accrued interest and other receivables overdue for three months or less	**171**	159
Total overdue and impaired trade bills, accrued interest and other receivables	**4,290**	4,012

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

Notes to Interim Financial Statements

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2016 (Unaudited) Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000	31 December 2015 (Audited) Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	**117,291**	**12,632**	**129,923**	117,398	12,748	130,146
Individual impairment allowances	**69,352**	**11,506**	**80,858**	73,889	11,457	85,346
Current market value and fair value of collateral			**42,166**			69,165
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**172,245**	**13,471**	**185,716**	176,409	12,856	189,265
Individual impairment allowances	**94,263**	**11,506**	**105,769**	94,944	11,565	106,509
Current market value and fair value of collateral			**112,006**			128,237

Over 90% (2015: over 90%) of the Group's gross loans and advances and receivables were derived from operations carried out in Hong Kong. Accordingly, no geographical segment information of gross loans and advances and receivables is presented herein.

16. 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 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**42,166**	69,165
Covered portion of overdue loans and advances	**23,757**	24,324
Uncovered portion of overdue loans and advances	**102,047**	101,969

The assets taken as collateral should satisfy the following criteria:

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

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

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

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

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

– Central governments with a grading of Aa3 or above

– Unrated public sector enterprises

– Banks with a grading of Baa2 or above

– Unrated corporations

– Individual shareholders and directors of corporate customers

(d) Repossessed assets

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

Notes to Interim Financial Statements

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2016 (Unaudited) Gross amount HK$'000	30 June 2016 (Unaudited) Percentage of total loans and advances %	31 December 2015 (Audited) Gross amount HK$'000	31 December 2015 (Audited) Percentage of total loans and advances %
Loans and advances overdue for three months or less	**451,383**	**1.56**	391,302	1.32
Trade bills, accrued interest and other receivables overdue for three months or less	**1,544**		1,297	

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

	30 June 2016 (Unaudited) Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
At 1 January 2016	**106,509**	**15,764**	**122,273**
Amounts written off	**(197,569)**	**–**	**(197,569)**
Impairment losses and allowances charged to the consolidated income statement	**198,559**	**57**	**198,616**
Impairment losses and allowances released to the consolidated income statement	**(69,249)**	**(1,309)**	**(70,558)**
Net charge/(release) of impairment losses and allowances	**129,310**	**(1,252)**	**128,058**
Loans and advances and receivables recovered	**67,680**	**–**	**67,680**
Exchange difference	**(161)**	**(10)**	**(171)**
At 30 June 2016	**105,769**	**14,502**	**120,271**
Deducted from:			
Loans and advances	**103,413**	**14,364**	**117,777**
Trade bills, accrued interest and other receivables	**2,356**	**138**	**2,494**
	105,769	**14,502**	**120,271**

Notes to Interim Financial Statements

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2015 (Audited) Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
At 1 January 2015	86,174	19,015	105,189
Amounts written off	(396,338)	–	(396,338)
Impairment losses and allowances charged to the consolidated income statement	423,799	311	424,110
Impairment losses and allowances released to the consolidated income statement	(155,147)	(3,546)	(158,693)
Net charge/(release) of impairment losses and allowances	268,652	(3,235)	265,417
Loans and advances and receivables recovered	148,620	–	148,620
Exchange difference	(599)	(16)	(615)
At 31 December 2015	106,509	15,764	122,273
Deducted from:			
Loans and advances	104,202	15,538	119,740
Trade bills, accrued interest and other receivables	2,307	226	2,533
	106,509	15,764	122,273

Notes to Interim Financial Statements

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(g) Finance lease receivables

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

	30 June 2016 (Unaudited)	31 December 2015 (Audited)	**30 June 2016 (Unaudited)**	31 December 2015 (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	**376,511**	356,016	**282,501**	270,140
In the second to fifth years, inclusive	**1,099,340**	1,022,923	**797,287**	750,335
Over five years	**3,742,582**	3,425,481	**3,117,402**	2,862,167
	5,218,433	4,804,420	**4,197,190**	3,882,642
Less: Unearned finance income	**(1,021,243)**	(921,778)		
Present value of minimum lease payments receivable	**4,197,190**	3,882,642		

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.

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

Notes to Interim Financial Statements

18. HELD-TO-MATURITY INVESTMENTS

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

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

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

All exposures attributed to the held-to-maturity investments were rated with a grading of A3 or above based on the credit rating of an external credit agency, Moody's, as at 30 June 2016 and 31 December 2015.

Notes to Interim Financial Statements

19. INVESTMENT PROPERTIES

	HK$'000
At valuation:	
At 1 January 2015	256,713
Changes in fair value recognised in the consolidated income statement	10,671
At 31 December 2015 and 1 January 2016 (Audited)	**267,384**
Transfer to property and equipment	**(697)**
Transfer to land held under finance leases	**(6,846)**
Additions	**48,731**
Changes in fair value recognised in the consolidated income statement	**(439)**
At 30 June 2016 (Unaudited)	**308,133**

All investment properties were classified under Level 3 in the fair value hierarchy. During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (31 December 2015: Nil). The Group has assessed that the highest and best use of its properties did not differ from their existing use.

At 30 June 2016, investment properties were revalued according to the revaluation reports issued by C S Surveyors Limited, a firm of independent professionally qualified valuers. Finance and Control Department has discussions with the valuer on the valuation methodology and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

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

	30 June 2016 (Unaudited)		31 December 2015 (Audited)	
	Range HK$	**Weighted average HK$**	Range HK$	Weighted average HK$
Price per square metre	**25,000 to 472,000**	**212,000**	25,000 to 474,000	162,000

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

The investment properties held by the Group are let under operating leases from which the Group earns rental income. Details of future annual rental receivables under operating leases are included in note 27(a) to the interim financial statements.

Notes to Interim Financial Statements

20. 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 2015	72,604	221,525	1,998	296,127
Additions	–	17,422	–	17,422
Disposals/write-off	–	(10,386)	–	(10,386)
At 31 December 2015 and 1 January 2016 (Audited)	**72,604**	**228,561**	**1,998**	**303,163**
Transfer from investment properties	**697**	**–**	**–**	**697**
Additions	**–**	**18,418**	**–**	**18,418**
Disposals/write-off	**–**	**(2,886)**	**–**	**(2,886)**
At 30 June 2016 (Unaudited)	**73,301**	**244,093**	**1,998**	**319,392**
Accumulated depreciation:				
At 1 January 2015	20,629	163,289	1,898	185,816
Provided during the year	1,715	17,548	50	19,313
Exchange difference	(64)	–	–	(64)
Disposals/write-off	–	(10,330)	–	(10,330)
At 31 December 2015 and 1 January 2016 (Audited)	**22,280**	**170,507**	**1,948**	**194,735**
Provided during the period	**836**	**9,014**	**23**	**9,873**
Exchange difference	**(9)**	**–**	**–**	**(9)**
Disposals/write-off	**–**	**(2,875)**	**–**	**(2,875)**
At 30 June 2016 (Unaudited)	**23,107**	**176,646**	**1,971**	**201,724**
Net carrying amount:				
At 30 June 2016 (Unaudited)	**50,194**	**67,447**	**27**	**117,668**
At 31 December 2015 (Audited)	50,324	58,054	50	108,428

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

Notes to Interim Financial Statements

21. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
At 1 January 2015, 31 December 2015 and 1 January 2016 (Audited)	**740,569**
Transfer from investment properties	**6,846**
At 30 June 2016 (Unaudited)	**747,415**
Accumulated depreciation and impairment:	
At 1 January 2015	89,655
Depreciation provided during the year	7,691
At 31 December 2015 and 1 January 2016 (Audited)	**97,346**
Depreciation provided during the period	**3,862**
At 30 June 2016 (Unaudited)	**101,208**
Net carrying amount:	
At 30 June 2016 (Unaudited)	**646,207**
At 31 December 2015 (Audited)	643,223

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.

22. INTANGIBLE ASSETS

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Cost:		
At the beginning and at the end of the period/year	**1,085**	1,085
Accumulated impairment:		
At the beginning and at the end of the period/year	**367**	367
Net carrying amount:		
At the beginning 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 (2015: five units) of Stock Exchange Trading Right and one unit (2015: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

Notes to Interim Financial Statements

23. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Interest receivables from financial institutions	**12,244**	16,638
Other debtors, deposits and prepayments	**96,811**	73,445
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	**24,377**	21,924
	133,432	112,007

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

Other liabilities

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Creditors, accruals and other payables	**241,413**	255,895
Interest payable	**70,916**	92,368
Net amount of accounts payable to HKSCC	**1,771**	–
	314,100	348,263

24. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Demand deposits and current accounts	**3,084,665**	3,001,784
Savings deposits	**5,126,278**	5,133,424
Time, call and notice deposits	**25,183,411**	24,896,613
	33,394,354	33,031,821

Notes to Interim Financial Statements

25. UNSECURED BANK LOANS AT AMORTISED COST

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Unsecured bank loans	**1,629,641**	1,642,400
Repayable:		
On demand or within a period not exceeding one year	**540,000**	555,000
Within a period of more than one year but not exceeding two years	**–**	–
Within a period of more than two years but not exceeding five years	**1,089,641**	1,087,400
	1,629,641	1,642,400

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

26. RESERVES

	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Employee share-based compensation reserve (Note 1) HK$'000	Regulatory reserve (Note 2) HK$'000	Retained profits HK$'000	Translation reserve HK$'000	Total HK$'000
At 1 January 2015	4,013,296	829	96,116	45,765	438,936	2,150,305	68,153	6,813,400
Profit for the year	–	–	–	–	–	422,955	–	422,955
Other comprehensive income	–	–	–	–	–	–	(25,971)	(25,971)
Transfer of employee share-based compensation reserve upon the expiry of share options	–	–	–	(45,765)	–	45,765	–	–
Transfer from retained profits	–	–	–	–	16,507	(16,507)	–	–
Dividends for 2015	–	–	–	–	–	(197,625)	–	(197,625)
At 31 December 2015 and 1 January 2016 (Audited)	**4,013,296**	**829**	**96,116**	**-**	**455,443**	**2,404,893**	**42,182**	**7,012,759**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**200,365**	**-**	**200,365**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**(16,025)**	**(16,025)**
Transfer to retained profits	**-**	**-**	**-**	**-**	**(20,755)**	**20,755**	**-**	**-**
Dividends declared	**-**	**-**	**-**	**-**	**-**	**(54,896)**	**-**	**(54,896)**
At 30 June 2016 (Unaudited)	**4,013,296**	**829**	**96,116**	**-**	**434,688**	**2,571,117**	**26,157**	**7,142,203**

26. RESERVES (Continued)

Notes:

1. The employee share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire.

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

27. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties in note 19 under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

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

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Within one year	**10,257**	9,380
In the second to fifth years, inclusive	**7,036**	3,692
	17,293	13,072

(b) As lessee

The Group has entered into non-cancellable operating lease arrangements with landlords, and the terms of the leases range from 1 to 10 years.

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

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Within one year	**61,053**	52,277
In the second to fifth years, inclusive	**59,781**	41,878
Over five years	**335**	382
	121,169	94,537

Notes to Interim Financial Statements

28. OFF-BALANCE SHEET EXPOSURE

(a) Contingent liabilities, commitments and derivatives

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

	30 June 2016 (Unaudited)				
	Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	77,061	77,061	70,984	–	–
Transaction-related contingencies	11,089	5,545	992	–	–
Trade-related contingencies	50,534	10,106	8,767	–	–
Forward forward deposits placed	473,205	473,205	94,641	–	–
Forward asset purchases	433	433	87	–	–
	612,322	566,350	175,471	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	683,295	9,439	1,893	2,605	745
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	4,000	2,000	2,000	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,884,093	–	–	–	–
	4,183,710	577,789	179,364	2,605	745

	30 June 2016 (Unaudited) Contractual amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	9,813

Notes to Interim Financial Statements

28. OFF-BALANCE SHEET EXPOSURE (Continued)

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

	31 December 2015 (Audited) Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	171,846	171,846	89,632	–	–
Transaction-related contingencies	14,363	7,181	1,649	–	–
Trade-related contingencies	45,298	9,060	6,660	–	–
Forward forward deposits placed	–	–	–	–	–
Forward asset purchases	1,513	1,513	303	–	–
	233,020	189,600	98,244	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	2,344,121	27,040	4,894	3,864	588
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	17,333	8,667	8,667	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,876,373	–	–	–	–
	6,470,847	225,307	111,805	3,864	588

	31 December 2015 (Audited) Contractual amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	17,031

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

At 30 June 2016 and 31 December 2015, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

Notes to Interim Financial Statements

28. 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.

29. 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	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Related party transactions included in the consolidated income statement:		
Interest paid and payable to the ultimate holding company and fellow subsidiaries	**3,230**	5,323
Deposit interest and commitment fees paid to the ultimate holding company	**1,196**	1,154
Key management personnel compensation:		
– short term employee benefits	**3,936**	3,644
– post-employment benefits	**257**	242
Interest expense paid to key management personnel	**6**	10
Commission income from key management personnel	**–**	22

Notes to Interim Financial Statements

29. RELATED PARTY TRANSACTIONS (Continued)

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Related party transactions included in the consolidated statement of financial position:		
Cash and short term funds with the ultimate holding company	**6,239**	150
Deposits from the ultimate holding company and fellow subsidiaries	**36,679**	417,499
Bank loans from the ultimate holding company and a fellow subsidiary	**540,000**	555,000
Interest payable to the ultimate holding company and a fellow subsidiary	**41**	53
Loans to key management personnel	**167**	70
Deposits from key management personnel	**968**	1,746
Interest payable to key management personnel	**1**	1

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Fixed rate financial instruments

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

Notes to Interim Financial Statements

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

		30 June 2016 (Unaudited)		
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets:				
Derivative financial instruments	**–**	**2,605**	**–**	**2,605**
Available-for-sale financial assets	**–**	**–**	**6,804**	**6,804**
	–	**2,605**	**6,804**	**9,409**
Financial liabilities:				
Derivative financial instruments	**–**	**745**	**–**	**745**

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

Level 2 financial instruments comprise forward foreign exchange contracts and currency swaps. These instruments have been measured at fair value based on the forward foreign exchange rates that are quoted in an active market. At 30 June 2016, the effects of discounting were considered insignificant for the Level 2 financial instruments.

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

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

For the period ended 30 June 2016 and the year ended 31 December 2015, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the period ended 30 June 2016 and the year ended 31 December 2015, there were no issues and settlements related to the Level 3 financial instruments.

There was no gain or loss and no OCI reported in the consolidated income statement and consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the period ended 30 June 2016 and the year ended 31 December 2015.

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

Notes to Interim Financial Statements

31. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	30 June 2016 (Unaudited)							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Cash and short term placements	1,079,307	3,828,321	–	–	–	–	–	4,907,628
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	1,048,700	448,633	–	–	–	1,497,333
Loans and advances and receivables (gross)	1,008,606	1,348,196	1,175,064	2,906,899	6,407,950	16,097,437	185,716	29,129,868
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	99,977	645,295	3,489,124	1,087,058	–	–	5,321,454
Other assets	196	71,370	8,917	28,266	–	–	24,683	133,432
Foreign exchange contracts (gross)	–	456,785	226,510	–	–	–	–	683,295
Total financial assets	2,088,109	5,804,649	3,104,486	6,872,922	7,495,008	16,097,437	217,203	41,679,814
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	54,064	630,626	50,000	221,735	–	–	–	956,425
Customer deposits at amortised cost	8,236,385	8,808,519	11,056,934	5,283,887	8,629	–	–	33,394,354
Certificates of deposit issued at amortised cost	–	–	–	1,072,869	–	–	–	1,072,869
Unsecured bank loans at amortised cost	–	90,000	–	450,000	1,089,641	–	–	1,629,641
Other liabilities	118	98,786	21,088	21,873	8,750	–	163,485	314,100
Foreign exchange contracts (gross)	–	454,984	226,451	–	–	–	–	681,435
Total financial liabilities	8,290,567	10,082,915	11,354,473	7,050,364	1,107,020	–	163,485	38,048,824
Net liquidity gap	(6,202,458)	(4,278,266)	(8,249,987)	(177,442)	6,387,988	16,097,437	53,718	3,630,990

Notes to Interim Financial Statements

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

31 December 2015 (Audited)

	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Cash and short term placements	1,028,166	2,900,046	–	–	–	–	–	3,928,212
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	444,339	573,794	–	–	–	1,018,133
Loans and advances and receivables (gross)	993,656	1,676,926	1,800,867	3,123,903	6,386,847	15,537,945	189,265	29,709,409
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	204,276	792,086	3,313,255	1,033,255	–	–	5,342,872
Other assets	72	55,780	6,457	33,707	–	–	15,991	112,007
Foreign exchange contracts (gross)	–	1,521,753	512,407	309,961	–	–	–	2,344,121
Total financial assets	2,021,894	6,358,781	3,556,156	7,354,620	7,420,102	15,537,945	212,060	42,461,558
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	49,824	674,269	200,000	60,000	–	–	–	984,093
Customer deposits at amortised cost	8,151,701	8,947,867	10,517,342	5,396,063	18,848	–	–	33,031,821
Certificates of deposit issued at amortised cost	–	–	499,977	–	–	–	–	499,977
Unsecured bank loans at amortised cost	–	455,000	–	100,000	1,087,400	–	–	1,642,400
Other liabilities	92	81,588	22,279	50,389	2,381	–	191,534	348,263
Foreign exchange contracts (gross)	–	1,519,405	511,681	309,759	–	–	–	2,340,845
Total financial liabilities	8,201,617	11,678,129	11,751,279	5,916,211	1,108,629	–	191,534	38,847,399
Net liquidity gap	(6,179,723)	(5,319,348)	(8,195,123)	1,438,409	6,311,473	15,537,945	20,526	3,614,159

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise customer deposits and certificates of deposit issued. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as cash and short term placements, held-to-maturity investments, loans and advances and receivables, and available-for-sale financial assets, which arise directly from its operations.

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

The main risks arising from the Group's financial instruments are interest rate risk, market risk, credit risk, liquidity risk and operational risk.

The Group's business activities comprise retail and commercial banking services. These activities expose the Group to a variety of risks, mainly interest rate risk, market risk, credit risk, liquidity risk and operational risk. The respective Boards of Public Bank (Hong Kong) and Public Finance ("Public Bank (Hong Kong) Group") review and approve policies for managing each of these risks and they are summarised below.

Risk management structure

The Group's risk management is underpinned by the Group's risk appetite and is subject to the respective Boards' oversight, through the Risk Management Committees ("RMCs") of Public Bank (Hong Kong) and Public Finance, which are Board Committees overseeing the establishment of enterprise-wide risk management policies and processes. The RMCs are assisted by the specific risk oversight committees including the Assets and Liabilities Management Committee ("ALCO"), Operational Risk Management Committee ("ORMC"), Credit Committee, Credit Risk Management Committee ("CRMC"), and Anti-Money Laundering and Counter-terrorist Financing and Compliance Committee or equivalent committees with similar functions of Public Bank (Hong Kong) and Public Finance.

The Group has established systems, policies and procedures for the control and monitoring of interest rate risk, market risk, credit risk, liquidity risk and operational risk, which are approved and endorsed by the respective Boards and reviewed regularly by the Group's management, and other designated committees or working groups. Material risks are identified and assessed by designated committees and/or working groups before the launch of new products or business activities, and are monitored, documented and controlled against applicable risk limits after the introduction of new products or services or implementation of new business activities. Internal auditors of Public Bank (Hong Kong) and Public Finance also perform regular audits to ensure compliance with the policies and procedures.

Interest rate risk management

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

Market risk management

(a) ***Currency risk***

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

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

At 30 June 2016, if RMB had strengthened or weakened by 100 basis points against HKD with all other variables held constant, the Group's equity would have increased or decreased by HK$12 million (31 December 2015: HK$6 million) mainly as a result of foreign exchange impact arising from net structural position of RMB denominated operating capital.

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(b) Price risk

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

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

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

Credit risk management

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

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

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and its capital resources. Its policy on connected lending 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 policies.

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.

Credit Risk Management Committee of Public Bank (Hong Kong) is responsible for establishing the framework for identifying, measuring, monitoring and controlling the credit risk of existing and new products. The Committee reviews credit risk management policies and credit risk tolerance limits, and reports to the RMC.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management (Continued)

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 16 to the interim financial statements.

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

Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its current obligations. Major sources of liquidity risk of the Group are the early or unexpected withdrawals of deposits in cash outflow and the delay in cash inflow from loan repayments. To manage liquidity risk, the Group has established a liquidity risk management framework which incorporates liquidity risk related policies and procedures, risk related metrics and tools, risk related assumptions, and the manner of reporting significant matters. The major objectives of liquidity risk management framework are to identify, measure and control liquidity risk exposures with proper implementation of funding strategies and reporting of significant risk related matters to management. Liquidity risk related policies are reviewed by senior management and dedicated committees, and significant changes in such policies are approved by the Boards of Public Bank (Hong Kong) and Public Finance or committees delegated by the respective Boards. The respective Boards are responsible for exercising management oversight over the liquidity risk management framework of the Group.

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

Risk Management Departments of Public Bank (Hong Kong) and Public Finance are responsible for day-to-day monitoring of liquidity maintenance ratios, loans to deposits ratios, concentration risk related ratios and other liquidity risk related ratios coupled with the use of cash flow projections, maturity ladder, stress-testing methodologies and other applicable risk assessment tools and metrics to detect early warning signals and identify vulnerabilities to potential liquidity risk on forward-looking basis with the objective of ensuring different types of liquidity risks of the Group are appropriately identified, measured, assessed and reported. They also carry out analysis based on risk-based MIS reports, summarises the data from those reports and present the key information to respective ALCOs on a regular (at least monthly) basis. In case of significant issues, such as serious limit excesses or breaches or early warning signals of potential severe impact on 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 ALCOs to their RMCs and the Boards.

The examples of liquidity risk related metrics of Public Bank (Hong Kong) and Public Finance include internal trigger point of liquidity maintenance ratio which is higher than the statutory liquidity maintenance ratio; cash flow mismatches under normal and different stressed scenarios; concentration related limits of deposits and other funding sources, and maturity profile of major assets and liabilities (including on-and-off-balance sheet items).

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

The Group maintains sufficient liquidity cushion comprising mainly bills, notes or bonds issued by eligible central governments in total amount not less than HK$1.5 billion to address critical and emergent liquidity needs on intraday basis and over other different time horizons. The Group is not subject to particular collateral arrangements or requirements in contracts if there is a credit rating downgrade of entities within the Group.

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

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Liquidity maintenance ratio

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

	For the six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Public Bank (Hong Kong):		
Consolidated average liquidity maintenance ratio	**46.7%**	43.9%

Public Bank (Hong Kong) Group calculates average liquidity maintenance ratio of each calendar month by reference to positions of specified days approved by the HKMA pursuant to Rule 48(2) of the Banking (Liquidity) Rules.

The average liquidity maintenance ratio is computed on a consolidated basis using the arithmetic mean of each calendar month's average liquidity maintenance ratio as reported in the return relating to the liquidity position submitted to the HKMA.

Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, human and 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 ORMC 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.

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital adequacy ratios

The consolidated capital adequacy ratios of the Group are computed in accordance with the provisions of the Banking (Amendment) Ordinance 2012 relating to Basel III capital standards and the amended Capital Rules. The Group has adopted the standardised approach for the calculation of credit risk-weighted exposures and market risk-weighted exposures. The Group has adopted the basic indicator approach and the standardised approach for the calculation of operational risk-weighted exposures of Public Bank (Hong Kong) and Public Finance, respectively.

	30 June 2016 (Unaudited)	31 December 2015 (Audited)
Group:		
Consolidated CET1 Capital Ratio	**13.0%**	12.9%
Consolidated Tier 1 Capital Ratio	**13.0%**	12.9%
Consolidated Total Capital Ratio	**14.3%**	14.3%
Public Bank (Hong Kong):		
Consolidated CET1 Capital Ratio	**16.6%**	16.8%
Consolidated Tier 1 Capital Ratio	**16.6%**	16.8%
Consolidated Total Capital Ratio	**17.8%**	18.0%

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

Capital related ratios at 30 June 2016 and 31 December 2015 were compiled in accordance with the Capital Rules and section 97C of the Hong Kong Banking Ordinance for the implementation of the "Basel III" capital accord.

Capital conservation buffer (CCB)

Public Bank (Hong Kong) Group is subject to the 2.5% CCB ratio which has been phased-in from 2016. The applicable CCB ratio effective from 1 January 2016 is 0.625%. Public Bank (Hong Kong) Group has reserved a capital buffer for the implementation of CCB ratio for which the applicable CCB ratio will become fully effective on 1 January 2019.

Countercyclical capital buffer (CCyB)

The CCyB ratio is an additional layer of CET1 Capital which takes effect as an extension of the Basel III Capital Conservation Buffer.

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

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Countercyclical capital buffer (CCyB) (Continued)

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

Jurisdiction (J)	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK$'000	CCyB ratio %	CCyB amount HK$'000
As at 30 June 2016 (unaudited)				
1. Hong Kong	**0.625**	**17,863,650**	**Not applicable**	**Not applicable**
2. Mainland China	**0.000**	**1,828,623**	**Not applicable**	**Not applicable**
Total	**Not applicable**	**19,692,273**	**0.567**	**111,648**

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

Leverage ratio

The leverage ratio is introduced into the Basel III framework as a non-risk-based backstop limit to supplement risk-based capital requirements. It aims to constraining the build-up of excess leverage in the banking sector, and introducing additional safeguards against model risk and measurement errors. The ratio is a volume-based measure calculated as Basel III Tier 1 capital divided by total On-balance sheet and Off-balance sheet exposures with reference to the Completion Instructions of the Quarterly Template on Leverage Ratio.

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Public Bank (Hong Kong):		
Consolidated Tier 1 Capital	**4,459,896**	4,354,326
Consolidated Exposure Measure for Leverage Ratio	**41,428,873**	40,204,730
Consolidated Leverage Ratio	**10.8%**	10.8%

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Principal subsidiaries and basis of consolidation

The basis of consolidation for financial accounting purposes is in accordance with HKFRSs, as described in note 3 to the interim financial statements.

The basis of consolidation for regulatory purposes is different from that for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C(1) of the Capital Rules.

The consolidated capital adequacy ratio of the Group is computed on a consolidated basis including the Company, Public Bank (Hong Kong) and Public Finance. The subsidiaries not included in the computation of the consolidated capital adequacy ratio of the Group are Public Bank (Nominees) Limited, Public Investments Limited (dissolved on 16 December 2015), Public Realty Limited (dissolved on 16 December 2015), 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 (dissolved on 16 December 2015), Winton Financial Limited ("Winton Financial") and Winton Motors, Limited.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) is computed on a consolidated basis including Public Bank (Hong Kong) and Public Finance. The subsidiaries not included in the computation of the consolidated capital adequacy ratio of Public Bank (Hong Kong) are Public Bank (Nominees) Limited, Public Investments Limited (dissolved on 16 December 2015), Public Realty Limited (dissolved on 16 December 2015), Public Credit Limited, Public Futures Limited, Public Pacific Securities Limited, Public Financial Securities Limited, Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited.

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

Management Discussion and Analysis

OVERVIEW

During the period under review, the operating environment for financial institutions in Hong Kong was very challenging and affected by the weak credit demand due to the slowdown of economic growth momentum and market sentiment under volatile global economy conditions. The moderation of economic activities and excessive production capacities in Mainland China also adversely impacted business developments of Hong Kong enterprises having operations in Mainland China. The softening export of goods and services, the weak domestic retail sales and downturn in inbound tourism, coupled with slowdown in cross-border funding activities and adjustments in local property price, further dampened economic activities and domestic credit demand in the banking sector of Hong Kong. The loans and earnings growth of the Group was also affected during the period under review.

FINANCIAL REVIEW

Revenue and earnings

For the six months ended 30 June 2016, the Group's profit after tax recorded a decrease of HK$18.5 million or 8.4% to HK$200.4 million as compared to the corresponding period in 2015. The decrease in profit of the Group was mainly attributed to the revaluation loss of HK$0.4 million in the fair value of investment properties for the period under review against a revaluation gain of HK$14.0 million in the corresponding period of previous year. Excluding the effect of the investment properties revaluation gain/loss, the operating profit after tax of the Group declined by HK$4.0 million or 2.0% when compared to the corresponding period in 2015.

The Group's basic earnings per share for the six months ended 30 June 2016 was HK$0.18. The Board of Directors has declared an interim dividend of HK$0.05 per share on 28 June 2016, payable on 5 August 2016.

During the period under review, total interest income of the Group decreased by HK$14.7 million or 1.7% to HK$832.8 million due to decrease in interest on bank placements and held-to-maturity debt securities, whilst total interest expense decreased by HK$30.6 million or 15.7% to HK$163.9 million due to decrease in cost of funding of customer deposits. As a result, the Group's net interest income increased by HK$15.9 million or 2.4% to HK$668.8 million. Other operating income from loan transactions, stockbroking, insurance and other business activities of the Group decreased by HK$18.1 million or 15.3% to HK$100.7 million in the period under review, mainly due to lower fee income in stockbroking activities from decline in volume of turnover in the stock market of Hong Kong.

Operating expenses of the Group decreased slightly by HK$2.0 million or 0.5% to HK$396.1 million mainly due to the decrease in marketing related costs.

Impairment allowance for loans and advances increased by HK$1.6 million or 1.2% to HK$128.1 million for the period under review.

Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) recorded a decrease of HK$571.1 million or 1.9% to HK$29.03 billion as at 30 June 2016 from HK$29.60 billion as at 31 December 2015 partly due to repayments of foreign currency loans of some customers based in Mainland China driven by the depreciation of Renminbi during the period under review. The Group's customer deposits grew slightly by HK$362.5 million or 1.1% to HK$33.39 billion as at 30 June 2016 from HK$33.03 billion as at 31 December 2015. Total assets of the Group stood at HK$44.75 billion as at 30 June 2016.

Group's branch network

Public Bank (Hong Kong), a subsidiary of the Company, has 32 branches in Hong Kong and 3 branches in Shenzhen in the People's Republic of China to provide a broad range of commercial and retail banking services. Public Finance, a subsidiary of Public Bank (Hong Kong), has a network of 42 branches in Hong Kong. Another operating subsidiary of the Company, Winton Financial which operates under a money lenders license, has a network of 8 branches in Hong Kong to provide personal financing to its target customer segment. In total, the Group has a combined branch network of 85 branches as at 30 June 2016 to serve its customers.

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

Management Discussion and Analysis

FINANCIAL REVIEW (Continued)

Business performance in loans and customer deposits

Public Bank (Hong Kong)

During the period under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) decreased by HK$554.3 million or 2.3% to HK$23.53 billion as at 30 June 2016 from HK$24.08 billion as at 31 December 2015. Customer deposits (excluding intra-group's deposits) increased by HK$206.8 million or 0.7% to HK$28.79 billion as at 30 June 2016 from HK$28.59 billion as at 31 December 2015. Impaired loans to total loans ratio of Public Bank (Hong Kong) was 0.28% as at 30 June 2016.

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

Public Finance

Total loans and advances of Public Finance increased by HK$3.9 million or 0.1% to HK$5.25 billion as compared to the position as at 31 December 2015. Customer deposits increased by HK$92.3 million or 1.9% to HK$4.89 billion as at 30 June 2016 from HK$4.80 billion as at 31 December 2015. Impaired loans to total loans ratio of Public Finance was 1.78% as at 30 June 2016.

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

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. 97.0% of the Group's operating income and 97.5% 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 2015, the Group's operating income from retail and commercial banking businesses increased by HK$12.2 million or 1.7% to HK$746.3 million due to increase in net interest income from improved net interest margin of loans and advances. As a result, profit before tax from retail and commercial banking businesses increased by HK$7.3 million or 3.1% to HK$238.8 million during the period under review.

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. The Group did not have plans for material investments or purchases of capital assets in the near term. As at 30 June 2016, 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-sufficient in funding their business growth. The Group did not have acquisitions or disposals of subsidiaries, associated companies and joint ventures during the period under review.

The Group relies principally on its internally generated capital, customer deposits, deposits from financial institutions and the issuance of certificates of deposit to fund its retail and commercial banking business and its consumer financing business. The Group's bank borrowings in the form of term loans denominated in Hong Kong dollars at floating interest rates stood at approximately HK$1.63 billion as at 30 June 2016. Based on the level of bank borrowings as compared to the equity of the Group, the Group's gearing ratio remained at a healthy level of 0.22 times as at 30 June 2016 as compared to 0.23 times as at 31 December 2015. The bank borrowings have remaining average maturity period of more than one year and less than two years. In the normal course of its commercial banking business, Public Bank (Hong Kong) had entered into foreign exchange and interest rate swaps and forward contracts to reduce the foreign exchange rate risk and interest rate risk exposures of the Group. Exposures to fluctuations in foreign exchange rates and interest rates were minimal. There were also no foreign currency net investments hedged by currency borrowings and other hedging instruments during the period under review.

The consolidated common equity tier 1 capital ratio and total capital ratio of Public Bank (Hong Kong) Group (inclusive of Public Bank (Hong Kong) and Public Finance) stood at 16.6% and 17.8% respectively as at 30 June 2016.

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 are enrolled in external training courses, seminars, professional and technical courses 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 social responsibility to the community.

As at 30 June 2016, the Group's staff force stood at 1,389 employees. For the six months ended 30 June 2016, the Group's total staff related costs amounted to HK$250.3 million.

Asset quality and credit management

The Group's impaired loans to total loans ratio remained the same at healthy level of 0.63% as at 30 June 2016 as compared to position of 31 December 2015.

The direct exposures to United Kingdom and Europe were assessed as insignificant and manageable as the core operations of the Group are principally based in Hong Kong.

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

Management Discussion and Analysis

PROSPECTS

The financial market volatility, followed by the United Kingdom's referendum in June 2016 to exit from the European Union is expected to cast uncertainties over global economic outlook in the second half of 2016. The volatility of currencies and interest rates in financial markets are also anticipated to take a toll on the effectiveness of easing monetary policies of some countries and slow down the pace of US interest rate rise in the near term. The easing economic growth momentum, caused by weak domestic and external demands, is expected to continue in Hong Kong and Mainland China.

The volatility and adjustments of property and equity prices will impact market sentiment adversely in Hong Kong and Mainland China, and subdue private consumption and risk adverse appetite for investments and business expansion. Competition in the banking and financing industry is expected to intensify with financial institutions seeking greater market share in loans and advances, deposit takings and fee income. The Group's loan business and fee-based business growth is expected to be more challenging in the near term. However, the Group will continue to safeguard its financial strength, manage risks cautiously and undertake prudent yet flexible business development strategies to diversify income streams from loan businesses and fee-based businesses.

The increase in demand for compliance related resources coupled with rising system related costs in meeting the increased regulatory and supervisory requirements are expected to have an impact on the earnings growth and cost efficiency of financial institutions in Hong Kong. Despite the foregoing, the Group will continue to pursue long-term business and profitability growth in line 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.

The Group will continue to focus on expanding its retail and commercial banking business and its consumer financing business through its branch network, offering of premium business service, support of growth in fee-based businesses and implementation of appropriate marketing strategies at reasonable costs. The Group will also 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. The Group does not plan to launch new products, services or businesses in material aspects in the near term.

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 2016.

Other Information

INTERIM DIVIDEND

The Board has on 28 June 2016 declared an interim dividend of HK$0.05 (2015: HK$0.05) per share payable on 5 August 2016 to shareholders whose names appear on the register of members of the Company on 20 July 2016.

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 2015 up to 22 July 2016 (being the date of approval of the Group's Interim Report 2016) are set out below:

Positions held with other members of the Group

Mr. Chong Yam Kiang, a Non-Executive Director of the Company, has been appointed director of Winton (B.V.I.) Limited, a directly wholly-owned subsidiary of the Company, and Winton Financial and Winton Motors, Limited, both are indirectly wholly-owned subsidiaries of the Company, with effect from 1 July 2016.

Other directorships and major appointments

Mr. Quah Poh Keat, a Non-Executive Director of the Company, has been appointed as an independent non-executive director of Kuala Lumpur Kepong Berhad with effect from 18 February 2016. Mr. Quah has also been appointed as an independent non-executive director of Paramount Corporation Berhad with effect from 8 June 2016. Both Kuala Lumpur Kepong Berhad and Paramount Corporation Berhad are public listed companies in Malaysia.

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 2016, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules were as follows:

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, the ultimate holding company	Tan Sri Dato' Sri Dr. Teh Hong Piow (Note)	24,711,282	–	884,194,971	–	908,906,253	23.4125
	Tan Yoke Kong	44,700	–	–	–	44,700	0.0012
	Chong Yam Kiang	18,840	–	–	–	18,840	0.0005
	Lee Huat Oon	63,142	–	–	–	63,142	0.0016
	Dato' Chang Kat Kiam	125,636	–	–	–	125,636	0.0032
	Lee Chin Guan	30	–	–	–	30	0.0000
	Lai Wan	–	18,654	–	–	18,654	0.0005
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

Note:

Tan Sri Dato' Sri Dr. Teh Hong Piow disposed of 2,500,000 shares held through a controlled corporation in Public Bank on 28 December 2015. The relevant notification was made to the Stock Exchange and the Company on 29 April 2016.

Other Information

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

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

Tan Sri Dato' Sri Dr. Teh Hong Piow, by virtue of his direct and indirect interest of 908,906,253 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.

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.

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

As at 30 June 2016, 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	98,700,000	8.9897
3. Aberdeen Global (Note)	Beneficial owner	65,812,000	5.9943

Note:

Aberdeen Global's interest in the shares of the Company has been included in those shares under the AA Group.

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

In August 2014, the Company entered into a facility agreement (the "Facility Agreement") with a total of eight financial institutions as the original lenders, Mizuho Bank, Ltd. as mandated lead arranger and bookrunner and Mizuho Bank, Ltd., Hong Kong Branch as the agent (the "Agent") for a term loan facility in an aggregate amount of up to HK$1,100,000,000 (the "Facility").

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 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.

Other Information

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

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

The circumstances giving rise to the obligation under Rule 13.18 of the Listing Rules continue to exist.

The aggregate level of facilities (excluding facilities arranged solely for the purpose of contingency funding plan) entered into with the Company and its subsidiaries which may be affected by such breach and required to be disclosed under Rule 13.18 of the Listing Rules amounts to HK$1,100,000,000.

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 2016.

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 2016 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") of the Company 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 2016 AGM of the Company held in March 2016 due to other engagement. The 2016 AGM was chaired by the Co-Chairman of the Company, Mr. Lai Wan.

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 2016 Interim Report has been reviewed by the Company's Audit Committee which comprises three Independent Non-Executive Directors and one Non-Executive Director.

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

22 July 2016

FSC
www.fsc.org
MIX
Paper from
responsible sources
FSC™ C004888