大眾金融控股有限公司

PUBLIC FINANCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 626

EXCELLENCE IS OUR COMMITMENT

2017

INTERIM REPORT

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 HM08
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

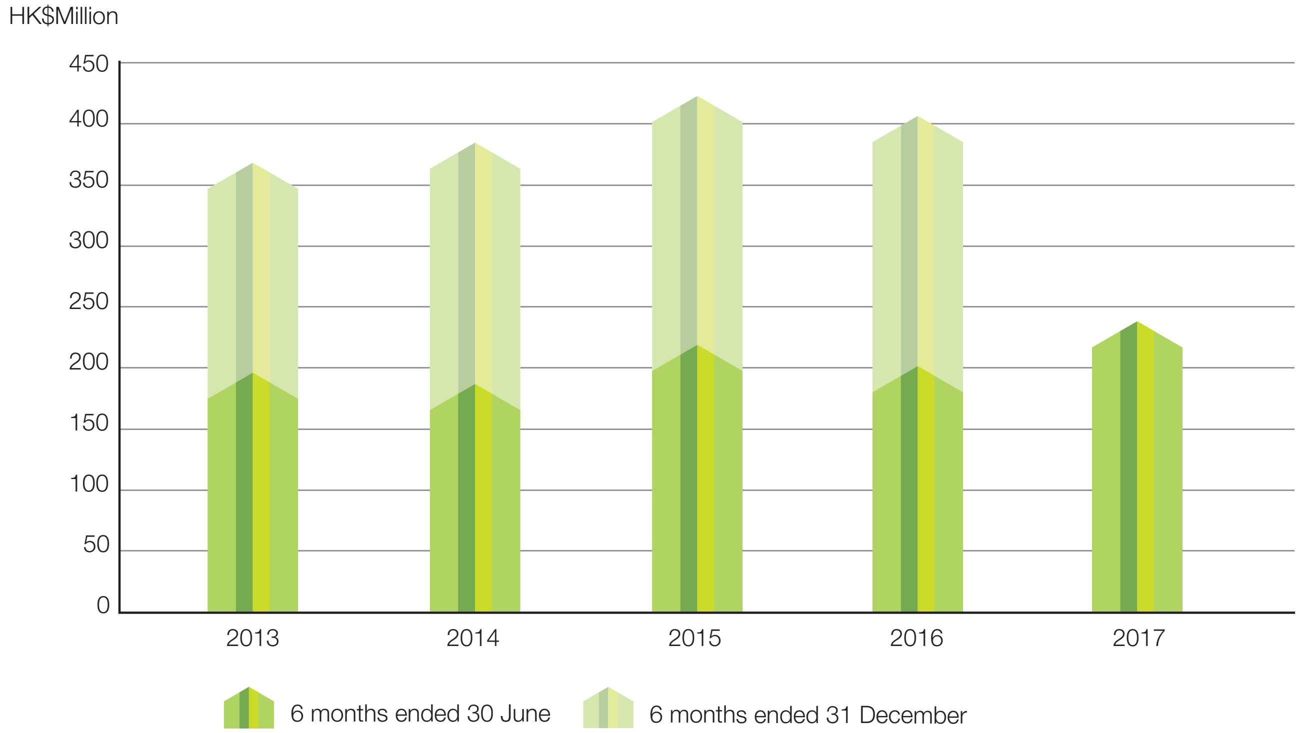
	Notes	For the six months ended 30 June 2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
Interest income	7	**866,412**	832,752
Interest expense	7	**(191,344)**	(163,924)
NET INTEREST INCOME		**675,068**	668,828
Other operating income	8	**110,022**	100,718
OPERATING INCOME		**785,090**	769,546
Operating expenses	9	**(421,803)**	(396,065)
Changes in fair value of investment properties		**4,501**	(439)
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**367,788**	373,042
Impairment allowances for loans and advances and receivables	10	**(74,659)**	(128,058)
PROFIT BEFORE TAX		**293,129**	244,984
Tax	11	**(54,987)**	(44,619)
PROFIT FOR THE PERIOD		**238,142**	200,365
ATTRIBUTABLE TO:			
Owners of the Company		**238,142**	200,365
EARNINGS PER SHARE (HK$)	13		
Basic		**0.217**	0.182
Diluted		**0.217**	0.182

Condensed Consolidated Statement of Comprehensive Income

	For the six months ended 30 June 2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
PROFIT FOR THE PERIOD	**238,142**	200,365
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange gain/(loss) on translating foreign operations, net of tax	**39,271**	(16,025)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**277,413**	184,340
ATTRIBUTABLE TO:		
Owners of the Company	**277,413**	184,340

Five-year Financial Summary

PROFIT



FINANCIAL POSITION

Condensed Consolidated Statement of Financial Position

	Notes	**30 June 2017 (Unaudited) HK$'000**	31 December 2016 (Audited) HK$'000
ASSETS			
Cash and short term placements	14	**5,009,921**	4,256,779
Placements with banks and financial institutions maturing after one month but not more than twelve months	15	**1,861,022**	2,222,825
Derivative financial instruments		**9,604**	412
Loans and advances and receivables	16	**28,834,217**	29,053,368
Available-for-sale financial assets	17	**6,804**	6,804
Held-to-maturity investments	18	**5,435,313**	5,693,861
Investment properties	19	**318,899**	314,398
Property and equipment	20	**125,852**	128,083
Land held under finance leases	21	**638,314**	642,260
Interest in a joint venture		**1,606**	1,606
Deferred tax assets		**22,178**	28,496
Tax recoverable		**5,309**	10,241
Goodwill		**2,774,403**	2,774,403
Intangible assets	22	**718**	718
Other assets	23	**150,273**	98,281
TOTAL ASSETS		**45,194,433**	45,232,535
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**537,974**	929,392
Derivative financial instruments		**1,667**	23,157
Customer deposits at amortised cost	24	**34,321,617**	33,721,280
Certificates of deposit issued at amortised cost		**752,845**	1,072,778
Dividends payable		**54,896**	142,729
Unsecured bank loans at amortised cost	25	**1,599,173**	1,606,143
Current tax payable		**39,327**	12,974
Deferred tax liabilities		**31,943**	31,719
Other liabilities	23	**353,169**	413,058
TOTAL LIABILITIES		**37,692,611**	37,953,230
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		**109,792**	109,792
Reserves	26	**7,392,030**	7,169,513
TOTAL EQUITY		**7,501,822**	7,279,305
TOTAL EQUITY AND LIABILITIES		**45,194,433**	45,232,535

Condensed Consolidated Statement of Changes in Equity

	Note	For the six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
		HK$'000	HK$'000
TOTAL EQUITY			
Balance at the beginning of the period		**7,279,305**	7,122,551
Profit for the period		**238,142**	200,365
Other comprehensive income in translation reserve		**39,271**	(16,025)
Total comprehensive income for the period		**277,413**	184,340
Dividends declared on shares	12(a)	**(54,896)**	(54,896)
Balance at the end of the period		**7,501,822**	7,251,995

Condensed Consolidated Statement of Cash Flows

	Notes	For the six months ended 30 June 2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**293,129**	244,984
Adjustments for:			
Dividend income from listed investments	8	**(45)**	(39)
Dividend income from unlisted investments	8	**(700)**	(700)
Depreciation of property and equipment and land held under finance leases	9	**14,341**	13,735
Net losses on disposal of property and equipment		**67**	11
Decrease in impairment allowances for loans and advances and receivables		**(34,867)**	(1,831)
(Increase)/decrease in fair value of investment properties		**(4,501)**	439
Exchange differences		**39,455**	(16,196)
Profits tax paid		**(17,160)**	(14,424)
Operating profit before changes in operating assets and liabilities		**289,719**	225,979
Decrease in operating assets:			
(Increase)/decrease in placements with banks and financial institutions		**(207,511)**	25,168
Decrease in loans and advances and receivables		**253,834**	579,541
Decrease/(increase) in held-to-maturity investments		**278,537**	(72,850)
Increase in other assets		**(51,992)**	(21,425)
(Increase)/decrease in derivative financial instruments		**(9,192)**	1,259
		263,676	511,693
(Decrease)/increase in operating liabilities:			
Decrease in deposits and balances of banks and other financial institutions at amortised cost		**(391,418)**	(27,668)
Increase in customer deposits at amortised cost		**600,337**	362,533
(Decrease)/increase in certificates of deposit issued at amortised cost		**(319,933)**	572,892
(Decrease)/increase in derivative financial instruments		**(21,490)**	157
Decrease in other liabilities		**(59,889)**	(34,163)
		(192,393)	873,751
Net cash inflow from operating activities		**361,002**	1,611,423

Condensed Consolidated Statement of Cash Flows

	Notes	For the six months ended 30 June 2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Exchange differences		**–**	(9)
Purchases of investment properties	19	**–**	(48,731)
Purchases of property and equipment	20	**(8,231)**	(18,418)
Dividends received from listed investments		**45**	39
Dividends received from unlisted investments		**700**	700
Net cash outflow from investing activities		**(7,486)**	(66,419)
CASH FLOWS FROM FINANCING ACTIVITIES			
New unsecured bank loans		**–**	100,000
Repayment of unsecured bank loans		**(6,970)**	(112,759)
Dividends paid on shares		**(142,729)**	(142,729)
Net cash outflow from financing activities		**(149,699)**	(155,488)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**203,817**	1,389,516
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**5,328,957**	4,227,310
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**5,532,774**	5,616,826
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand		**959,859**	1,079,307
Money at call and short notice with an original maturity within three months		**3,957,998**	3,828,321
Placements with banks and financial institutions with an original maturity within three months		**594,928**	709,198
Held-to-maturity investments with an original maturity within three months		**19,989**	–
		5,532,774	5,616,826

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 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 2016 Annual Report.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's 2016 Annual Report, except for the changes in accounting policies as set out in note 5 below.

3. BASIS OF CONSOLIDATION

The interim condensed consolidated financial statements include the interim financial statements of the Company and its subsidiaries for the period ended 30 June 2017.

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 ("Winton (B.V.I.)") and their subsidiaries and a joint venture which is now in members' voluntary liquidation.

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 Banking (Disclosure) Rules.

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

The computation of the consolidated total capital ratio of the Group is based on the ratio of the aggregate of risk-weighted exposures to the aggregate of capital bases of the 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 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%. 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 required CCyB ratio for 2017 is 1.25%. Public Bank (Hong Kong) and Public Finance monitor leverage ratio to ensure compliance with regulatory requirements.

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

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

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

Notes to Interim Financial Statements

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

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

Issued but not yet effective HKFRSs

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

• Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
• Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
• HKFRS 9	*Financial Instruments*[1]
• HKFRS 15	*Revenue from Contracts with Customers*[1]
• Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
• HKFRS 16	*Leases*[2]
• Annual Improvements 2014-2016 Cycle	Amendments to a number of HKFRSs[1]
• Amendments to HKAS 40	*Transfers of Investment Property*[1]
• HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]

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

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

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

Notes to Interim Financial Statements

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

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

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

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

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

Currently, most of the Group's financial assets, including loans and advances, held-to-maturity debt securities and placements with banks and financial institutions are classified and measured at amortised cost, and the Group does not expect the adoption of HKFRS 9 to have material impact on the classification and meaurement of its financial assets.

The Group expects to adopt HKFRS 9 from 1 January 2018. Based on the Group's exposures of financial assets and commitments as at 30 June 2017, the estimated impact on equity upon the adoption of HKFRS 9 would not be more than HK$255 million. The Group intends to quantify the potential impact of HKFRS 9 in more details once it is practicable to provide reliable estimates.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implement issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group has assessed the impact of this standard and expects that the standard will not have significant impact, when applied, on the consolidated financial statements of the Group.

Notes to Interim Financial Statements

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

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

Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. As at 30 June 2017, the Group had non-cancellable operating lease commitments of HK$117,127,000 as set out in note 27(b) to the interim financial statements. The interest expense on the lease liability and the depreciation expense on the right-of-use asset under HKFRS 16 will replace the rental charge under HKAS 17. The operating lease commitments as shown in off-balance sheet item will be replaced by “right-of-use asset” and “lease liability” in the balance sheet of the Group. Other than the above, the Group does not anticipate that the application of this standard will have material impact on the consolidated financial statements of the Group.

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

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

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 2017 and 2016.

	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	
	2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000	**2017 (Unaudited) HK$'000**	2016 (Unaudited) HK$'000	**2017 (Unaudited) HK$'000**	2016 (Unaudited) HK$'000	**2017 (Unaudited) HK$'000**	2016 (Unaudited) HK$'000	**2017 (Unaudited) HK$'000**	2016 (Unaudited) HK$'000
Segment revenue										
External:										
Net interest income/(expense)	**675,111**	668,824	**(43)**	4	**-**	–	**-**	–	**675,068**	668,828
Other operating income:										
Fees and commission income	**73,442**	71,749	**17,267**	14,126	**194**	217	**-**	–	**90,903**	86,092
Others	**9,942**	5,769	**8**	7	**9,169**	8,850	**-**	–	**19,119**	14,626
Inter-segment transactions:										
Fees and commission income	**-**	–	**-**	–	**9**	8	**(9)**	(8)	**-**	–
Operating income	**758,495**	746,342	**17,232**	14,137	**9,372**	9,075	**(9)**	(8)	**785,090**	769,546
Operating profit after impairment allowance before tax	**279,107**	238,786	**5,964**	3,445	**8,058**	2,753	**-**	–	**293,129**	244,984
Tax									**(54,987)**	(44,619)
Profit for the period									**238,142**	200,365
Other segment information										
Depreciation of property and equipment and land held under finance leases	**(14,341)**	(13,735)	**-**	–	**-**	–	**-**	–	**(14,341)**	(13,735)
Changes in fair value of investment properties	**-**	–	**-**	–	**4,501**	(439)	**-**	–	**4,501**	(439)
Impairment allowances for loans and advances and receivables	**(74,659)**	(128,058)	**-**	–	**-**	–	**-**	–	**(74,659)**	(128,058)
Net losses on disposal of property and equipment	**(67)**	(11)	**-**	–	**-**	–	**-**	–	**(67)**	(11)

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 2017 and 31 December 2016.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000	**30 June 2017 (Unaudited) HK$'000**	31 December 2016 (Audited) HK$'000	**30 June 2017 (Unaudited) HK$'000**	31 December 2016 (Audited) HK$'000	**30 June 2017 (Unaudited) HK$'000**	31 December 2016 (Audited) HK$'000	**30 June 2017 (Unaudited) HK$'000**	31 December 2016 (Audited) HK$'000
Segment assets other than intangible assets and goodwill	**41,776,794**	41,773,603	**293,766**	327,618	**319,659**	315,850	**-**	–	**42,390,219**	42,417,071
Intangible assets	**-**	–	**718**	718	**-**	–	**-**	–	**718**	718
Goodwill	**2,774,403**	2,774,403	**-**	–	**-**	–	**-**	–	**2,774,403**	2,774,403
Segment assets	**44,551,197**	44,548,006	**294,484**	328,336	**319,659**	315,850	**-**	–	**45,165,340**	45,192,192
Unallocated assets:										
Interest in a joint venture									**1,606**	1,606
Deferred tax assets and tax recoverable									**27,487**	38,737
Total assets									**45,194,433**	45,232,535
Segment liabilities	**37,468,415**	37,637,035	**90,193**	120,472	**7,837**	8,301	**-**	–	**37,566,445**	37,765,808
Unallocated liabilities:										
Deferred tax liabilities and tax payable									**71,270**	44,693
Dividends payable									**54,896**	142,729
Total liabilities									**37,692,611**	37,953,230
Other segment information										
Additions to non-current assets – capital expenditure	**8,231**	88,482	**-**	–	**-**	–	**-**	–	**8,231**	88,482

Notes to Interim Financial Statements

6. SEGMENT INFORMATION (Continued)

Geographical information

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

The following table discloses the segment revenue information for geographical segments for the six months ended 30 June 2017 and 2016.

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Segment revenue from external customers:		
Hong Kong	**721,852**	731,067
Mainland China	**63,238**	38,479
	785,090	769,546

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

The following table discloses the non-current assets information for geographical segments as at 30 June 2017 and 31 December 2016.

	30 June 2017	31 December 2016
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Non-current assets:		
Hong Kong	**3,842,583**	3,843,400
Mainland China	**17,209**	18,068
	3,859,792	3,861,468

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

Operating income or revenue from major customers

Operating income or revenue from transactions with each external customer, including a group of entities which are known to be under common control with that customer, amounts to less than 10% (2016: less than 10%) of the Group's total operating income or revenue.

Notes to Interim Financial Statements

7. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**773,318**	775,631
Short term placements and placements with banks	**56,291**	29,675
Held-to-maturity investments	**36,803**	27,446
	866,412	832,752
Interest expense on:		
Deposits from banks and financial institutions	**4,092**	8,019
Deposits from customers	**170,192**	140,177
Bank loans	**17,060**	15,728
	191,344	163,924

Interest income and interest expense for the six months ended 30 June 2017, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss, amounted to HK$866,412,000 and HK$191,344,000 (2016: HK$832,752,000 and HK$163,924,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2017 amounted to HK$6,050,000 (2016: HK$2,802,000).

Notes to Interim Financial Statements

8. OTHER OPERATING INCOME

	For the six months ended 30 June 2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
Fees and commission income:		
Retail and commercial banking and other businesses	**74,291**	72,672
Wealth management services, stockbroking and securities management	**17,267**	14,126
	91,558	86,798
Less: Fees and commission expenses	**(655)**	(706)
Net fees and commission income	**90,903**	86,092
Gross rental income	**8,915**	8,828
Less: Direct operating expenses	**(39)**	(49)
Net rental income	**8,876**	8,779
Gains less losses arising from dealing in foreign currencies	**512**	2,481
Net gains on derivative financial instruments	**7,937**	1,860
	8,449	4,341
Net losses on disposal of property and equipment	**(67)**	(11)
Dividend income from listed investments	**45**	39
Dividend income from unlisted investments	**700**	700
Others	**1,116**	778
	110,022	100,718

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

There were no net gains or losses arising from available-for-sale financial assets, held-to-maturity investments, loans and advances and receivables, financial liabilities measured at amortised cost and financial assets and liabilities designated at fair value through profit or loss for the six months ended 30 June 2017 and 2016.

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

Notes to Interim Financial Statements

9. OPERATING EXPENSES

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Staff costs:		
Salaries and other staff costs	**256,359**	239,379
Pension contributions	**10,859**	10,924
Less: Forfeited contributions	**(6)**	(10)
Net contribution to retirement benefit schemes	**10,853**	10,914
	267,212	250,293
Other operating expenses:		
Operating lease rentals on leasehold buildings	**33,723**	33,413
Depreciation of property and equipment and land held under finance leases	**14,341**	13,735
Administrative and general expenses	**39,167**	36,336
Others	**67,360**	62,288
Operating expenses before changes in fair value of investment properties	**421,803**	396,065

As at 30 June 2017 and 2016, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The credits for the periods ended 30 June 2017 and 2016 arose in respect of staff who left the schemes during the periods.

Notes to Interim Financial Statements

10. IMPAIRMENT ALLOWANCES

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net charge for/(write-back of) impairment losses and allowances:		
– loans and advances	**76,983**	128,097
– trade bills, accrued interest and receivables	**(2,324)**	(39)
	74,659	128,058
Net charge for/(write-back of) impairment losses and allowances:		
– individually assessed	**77,673**	129,310
– collectively assessed	**(3,014)**	(1,252)
	74,659	128,058
Of which:		
– new impairment losses and allowances (including any amount directly written off during the period)	**152,025**	198,616
– releases and recoveries	**(77,366)**	(70,558)
Net charge to the consolidated income statement	**74,659**	128,058

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

11. TAX

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current tax charge:		
Hong Kong	**38,841**	36,685
Overseas	**9,178**	5,010
Under-provision in prior periods	**426**	–
Deferred tax charge, net	**6,542**	2,924
	54,987	44,619

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Notes to Interim Financial Statements

11. TAX (Continued)

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 2017 (Unaudited)					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**242,283**		**50,846**		**293,129**	
Tax at the applicable tax rate	**39,977**	**16.5**	**12,711**	**25.0**	**52,688**	**18.0**
Estimated tax losses from previous periods utilised	**(12)**	**–**	**–**	**–**	**(12)**	**–**
Estimated tax effect of net expenses that are not deductible	**1,875**	**0.8**	**10**	**–**	**1,885**	**0.6**
Adjustments in respect of current tax of previous periods	**–**	**–**	**426**	**0.8**	**426**	**0.1**
Tax charge at the Group's effective rate	**41,840**	**17.3**	**13,147**	**25.8**	**54,987**	**18.7**

	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

Notes to Interim Financial Statements

12. DIVIDENDS

(a) Dividends declared during the interim period

	For the six months ended 30 June			
	2017 (Unaudited) HK$ per ordinary share	2016 (Unaudited) HK$ per ordinary share	**2017 (Unaudited) HK$'000**	2016 (Unaudited) HK$'000
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			
	2017 (Unaudited) HK$ per ordinary share	2016 (Unaudited) HK$ per ordinary share	**2017 (Unaudited) HK$'000**	2016 (Unaudited) HK$'000
Second interim dividend in respect of the previous period	**0.13**	0.13	**142,729**	142,729

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$238,142,000 (2016: HK$200,365,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2016: 1,097,917,618) during the period.

(b) Diluted earnings per share

The Group had no potentially dilutive ordinary shares in issue during the periods ended 30 June 2017 and 2016.

Notes to Interim Financial Statements

14. CASH AND SHORT TERM PLACEMENTS

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Cash on hand	**148,674**	168,311
Placements with banks and financial institutions	**811,185**	1,210,444
Money at call and short notice	**4,050,062**	2,878,024
	5,009,921	4,256,779

Over 90% (2016: over 90%) of the placements were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's, an external credit agency.

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

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

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

Over 90% (2016: over 90%) of the placements were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's, an external credit agency.

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

Notes to Interim Financial Statements

16. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Loans and advances to customers	**28,783,902**	29,027,711
Trade bills	**53,718**	53,012
Loans and advances, and trade bills	**28,837,620**	29,080,723
Accrued interest	**73,403**	82,155
	28,911,023	29,162,878
Other receivables	**22,140**	24,119
Gross loans and advances and receivables	**28,933,163**	29,186,997
Less: Impairment allowances for loans and advances and receivables		
– individually assessed	**(89,583)**	(121,272)
– collectively assessed	**(9,363)**	(12,357)
	(98,946)	(133,629)
Loans and advances and receivables	**28,834,217**	29,053,368

Over 90% (2016: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (2016: over 90%) of the collateral for the secured loans and advances and receivables were customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

Loans and advances and receivables are summarised as follows:

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Neither past due nor impaired loans and advances and receivables	**28,329,774**	28,384,836
Past due but not impaired loans and advances and receivables	**400,029**	542,779
Individually impaired loans and advances	**199,544**	253,652
Individually impaired receivables	**3,816**	5,730
Gross loans and advances and receivables	**28,933,163**	29,186,997

About 65% (2016: 67%) of "Neither past due nor impaired loans and advances and receivables" were property mortgage loans and hire purchase loans secured by properties, taxi licences, public light bus licences and vehicles.

Notes to Interim Financial Statements

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2017 (Unaudited)		31 December 2016 (Audited)	
	Gross amount HK$'000	**Percentage of total loans and advances %**	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	**60,973**	**0.21**	82,655	0.29
One year or less but over six months	**19,169**	**0.07**	44,716	0.15
Over one year	**35,117**	**0.12**	23,696	0.08
Loans and advances overdue for more than three months	**115,259**	**0.40**	151,067	0.52
Rescheduled loans and advances overdue for three months or less	**50,971**	**0.17**	62,449	0.21
Impaired loans and advances overdue for three months or less	**33,314**	**0.12**	40,136	0.14
Total overdue and impaired loans and advances	**199,544**	**0.69**	253,652	0.87

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 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**135**	287
One year or less but over six months	**701**	1,781
Over one year	**2,717**	3,169
Trade bills, accrued interest and other receivables overdue for more than three months	**3,553**	5,237
Impaired trade bills, accrued interest and other receivables overdue for three months or less	**263**	493
Total overdue and impaired trade bills, accrued interest and other receivables	**3,816**	5,730

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 impairment allowances

	30 June 2017 (Unaudited) Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000	31 December 2016 (Audited) Hong Kong HK$'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	**100,401**	**18,411**	**118,812**	131,717	24,587	156,304
Individual impairment allowances	**51,597**	**9,500**	**61,097**	61,208	22,429	83,637
Collective impairment allowances	**1**	**2**	**3**	–	–	–
Current market value and fair value of collateral			**87,216**			104,214
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**174,952**	**28,408**	**203,360**	234,795	24,587	259,382
Individual impairment allowances	**80,083**	**9,500**	**89,583**	98,843	22,429	121,272
Collective impairment allowances	**4**	**2**	**6**	–	–	–
Current market value and fair value of collateral			**174,391**			180,108

Over 90% (2016: over 90%) of the Group's gross loans and advances and receivables were derived from operations carried out in Hong Kong. Accordingly, no geographical segment information of gross loans and advances and receivables is presented herein.

Notes to Interim Financial Statements

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 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**87,216**	104,214
Covered portion of overdue loans and advances	**42,027**	57,424
Uncovered portion of overdue loans and advances	**73,232**	93,643

The assets taken as collateral should satisfy the following criteria:

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

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

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

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

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

– Central governments with a grading of Aa3 or above

– Unrated public sector enterprises

– Banks with a grading of Baa2 or above

– Unrated corporations

– Individual shareholders and directors of corporate customers

(d) Repossessed assets

As at 30 June 2017, the total value of repossessed assets of the Group amounted to HK$27,650,000 (31 December 2016: HK$7,210,000).

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 2017 (Unaudited) Gross amount HK$'000	30 June 2017 (Unaudited) Percentage of total loans and advances %	31 December 2016 (Audited) Gross amount HK$'000	31 December 2016 (Audited) Percentage of total loans and advances %
Loans and advances overdue for three months or less	**398,436**	**1.38**	526,139	1.81
Trade bills, accrued interest and other receivables overdue for three months or less	**1,593**		16,640	

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

	30 June 2017 (Unaudited) Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
As at 1 January 2017	**121,272**	**12,357**	**133,629**
Amounts written off	**(178,226)**	**–**	**(178,226)**
Impairment losses and allowances charged to the consolidated income statement	**151,909**	**116**	**152,025**
Impairment losses and allowances released to the consolidated income statement	**(74,236)**	**(3,130)**	**(77,366)**
Net charge/(release) of impairment losses and allowances	**77,673**	**(3,014)**	**74,659**
Loans and advances and receivables recovered	**68,700**	**–**	**68,700**
Exchange difference	**164**	**20**	**184**
As at 30 June 2017	**89,583**	**9,363**	**98,946**
Deducted from:			
Loans and advances	**89,515**	**9,257**	**98,772**
Trade bills, accrued interest and other receivables	**68**	**106**	**174**
	89,583	**9,363**	**98,946**

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 2016 (Audited) Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
As at 1 January 2016	106,509	15,764	122,273
Amounts written off	(382,302)	–	(382,302)
Impairment losses and allowances charged to the consolidated income statement	408,852	154	409,006
Impairment losses and allowances released to the consolidated income statement	(149,753)	(3,516)	(153,269)
Net charge/(release) of impairment losses and allowances	259,099	(3,362)	255,737
Loans and advances and receivables recovered	138,630	–	138,630
Exchange difference	(664)	(45)	(709)
As at 31 December 2016	121,272	12,357	133,629
Deducted from:			
Loans and advances	119,157	12,072	131,229
Trade bills, accrued interest and other receivables	2,115	285	2,400
	121,272	12,357	133,629

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 2017 (Unaudited)	31 December 2016 (Audited)	**30 June 2017 (Unaudited)**	31 December 2016 (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	**359,858**	364,112	**266,978**	270,685
In the second to fifth years, inclusive	**1,058,851**	1,064,155	**753,356**	759,367
Over five years	**3,778,955**	3,717,836	**3,144,952**	3,088,024
	5,197,664	5,146,103	**4,165,286**	4,118,076
Less: Unearned finance income	**(1,032,378)**	(1,028,027)		
Present value of minimum lease payments receivable	**4,165,286**	4,118,076		

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

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

Notes to Interim Financial Statements

18. HELD-TO-MATURITY INVESTMENTS

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

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

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

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

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19. INVESTMENT PROPERTIES

	HK$'000
At valuation:	
As at 1 January 2016	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	5,826
As at 31 December 2016 and 1 January 2017 (Audited)	**314,398**
Changes in fair value recognised in the consolidated income statement	**4,501**
As at 30 June 2017 (Unaudited)	**318,899**

The Group's investment properties are situated in Hong Kong and are held under medium term leases in Hong Kong.

All investment properties were classified under Level 3 in the fair value hierarchy. During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (31 December 2016: Nil). The Group has assessed that the highest and best use of its properties did not differ from their existing use.

As at 30 June 2017, investment properties were revalued according to the revaluation reports issued by C S Surveyors Limited, a firm of independent professionally qualified valuers. Finance and Control Department has discussions with the valuer on the valuation methodology and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

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

	30 June 2017 (Unaudited)		31 December 2016 (Audited)	
	Range HK$	**Weighted average HK$**	Range HK$	Weighted average HK$
Price per square metre	**29,000 to 492,000**	**220,000**	28,000 to 482,000	216,000

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:				
As at 1 January 2016	72,604	228,561	1,998	303,163
Transfer from investment properties	697	–	–	697
Additions	–	39,751	–	39,751
Disposals/write-off	–	(4,807)	–	(4,807)
As at 31 December 2016 and 1 January 2017 (Audited)	**73,301**	**263,505**	**1,998**	**338,804**
Additions	**–**	**8,131**	**100**	**8,231**
Disposals/write-off	**–**	**(9,561)**	**–**	**(9,561)**
As at 30 June 2017 (Unaudited)	**73,301**	**262,075**	**2,098**	**337,474**
Accumulated depreciation:				
As at 1 January 2016	22,280	170,507	1,948	194,735
Provided during the year	1,668	19,027	33	20,728
Exchange difference	(9)	–	–	(9)
Disposals/write-off	–	(4,733)	–	(4,733)
As at 31 December 2016 and 1 January 2017 (Audited)	**23,939**	**184,801**	**1,981**	**210,721**
Provided during the period	**833**	**9,547**	**15**	**10,395**
Disposals/write-off	**–**	**(9,494)**	**–**	**(9,494)**
As at 30 June 2017 (Unaudited)	**24,772**	**184,854**	**1,996**	**211,622**
Net carrying amount:				
As at 30 June 2017 (Unaudited)	**48,529**	**77,221**	**102**	**125,852**
As at 31 December 2016 (Audited)	49,362	78,704	17	128,083

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

Notes to Interim Financial Statements

21. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
As at 1 January 2016	740,569
Transfer from investment properties	6,846
As at 31 December 2016 and 1 January 2017 (Audited)	**747,415**
As at 30 June 2017 (Unaudited)	**747,415**
Accumulated depreciation and impairment:	
As at 1 January 2016	97,346
Depreciation provided during the year	7,809
As at 31 December 2016 and 1 January 2017 (Audited)	**105,155**
Depreciation provided during the period	**3,946**
As at 30 June 2017 (Unaudited)	**109,101**
Net carrying amount:	
As at 30 June 2017 (Unaudited)	**638,314**
As at 31 December 2016 (Audited)	642,260

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 of disposal and value-in-use.

22. INTANGIBLE ASSETS

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Cost:		
At the beginning and the end of the period/year	**1,085**	1,085
Accumulated impairment:		
At the beginning and the end of the period/year	**367**	367
Net carrying amount:		
At the beginning and 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 (2016: five units) of Stock Exchange Trading Right and one unit (2016: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

Notes to Interim Financial Statements

23. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Interest receivables from financial institutions	**33,493**	22,434
Other debtors, deposits and prepayments	**106,692**	72,209
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	**10,088**	3,638
	150,273	98,281

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

Other liabilities

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Creditors, accruals and other payables	**248,435**	315,179
Interest payable	**82,233**	73,552
Net amount of accounts payable to HKSCC	**22,501**	24,327
	353,169	413,058

24. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Demand deposits and current accounts	**3,396,760**	3,443,921
Savings deposits	**6,190,591**	5,492,010
Time, call and notice deposits	**24,734,266**	24,785,349
	34,321,617	33,721,280

Notes to Interim Financial Statements

25. UNSECURED BANK LOANS AT AMORTISED COST

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Unsecured bank loans	**1,599,173**	1,606,143
Repayable:		
On demand or within a period not exceeding one year	**505,000**	514,000
Within a period of more than one year but not exceeding two years	**1,094,173**	1,092,143
Within a period of more than two years but not exceeding five years	**–**	–
	1,599,173	1,606,143

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 HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Regulatory reserve (Note) HK$'000	Retained profits HK$'000	Translation reserve HK$'000	Total HK$'000
As at 1 January 2016	4,013,296	829	96,116	455,443	2,404,893	42,182	7,012,759
Profit for the year	–	–	–	–	406,561	–	406,561
Other comprehensive income	–	–	–	–	–	(52,182)	(52,182)
Transfer to retained profits	–	–	–	(16,705)	16,705	–	–
Dividends for 2016	–	–	–	–	(197,625)	–	(197,625)
As at 31 December 2016 and 1 January 2017 (Audited)	**4,013,296**	**829**	**96,116**	**438,738**	**2,630,534**	**(10,000)**	**7,169,513**
Profit for the period	**-**	**-**	**-**	**-**	**238,142**	**-**	**238,142**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**39,271**	**39,271**
Transfer to retained profits	**-**	**-**	**-**	**(10,838)**	**10,838**	**-**	**-**
Dividends declared	**-**	**-**	**-**	**-**	**(54,896)**	**-**	**(54,896)**
As at 30 June 2017 (Unaudited)	**4,013,296**	**829**	**96,116**	**427,900**	**2,824,618**	**29,271**	**7,392,030**

Note:

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

Notes to Interim Financial Statements

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.

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

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Within one year	**10,008**	8,969
In the second to fifth years, inclusive	**5,427**	5,341
	15,435	14,310

(b) As lessee

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

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

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Within one year	**59,055**	58,432
In the second to fifth years, inclusive	**57,314**	45,832
Over five years	**758**	872
	117,127	105,136

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 2017 (Unaudited)				
	Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	**27,870**	**27,870**	**22,485**	**–**	**–**
Transaction-related contingencies	**14,406**	**7,203**	**2,112**	**–**	**–**
Trade-related contingencies	**62,894**	**12,579**	**11,928**	**–**	**–**
Forward forward deposits placed	**5,754**	**5,754**	**1,151**	**–**	**–**
Forward asset purchases	**–**	**–**	**–**	**–**	**–**
	110,924	**53,406**	**37,676**	**–**	**–**
Derivatives held for trading:					
Foreign exchange rate contracts	**1,680,117**	**26,412**	**5,283**	**9,604**	**1,667**
Other commitments with an original maturity of:					
Not more than one year	**–**	**–**	**–**	**–**	**–**
More than one year	**10,000**	**5,000**	**5,000**	**–**	**–**
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	**3,424,858**	**–**	**–**	**–**	**–**
	5,225,899	**84,818**	**47,959**	**9,604**	**1,667**

	30 June 2017 (Unaudited) Contractual amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	**11,866**

Notes to Interim Financial Statements

28. OFF-BALANCE SHEET EXPOSURE (Continued)

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

	31 December 2016 (Audited) Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	723,281	723,281	197,661	–	–
Transaction-related contingencies	15,235	7,618	2,569	–	–
Trade-related contingencies	101,475	20,294	5,687	–	–
Forward forward deposits placed	–	–	–	–	–
Forward asset purchases	–	–	–	–	–
	839,991	751,193	205,917	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	1,214,516	12,557	2,529	412	23,157
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	–	–	–	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,789,134	–	–	–	–
	5,843,641	763,750	208,446	412	23,157

	31 December 2016 (Audited) Contractual amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	11,643

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

As at 30 June 2017 and 31 December 2016, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

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	
	2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
Related party transactions included in the consolidated income statement:		
Interest paid and payable to the ultimate holding company and fellow subsidiaries	**3,492**	3,230
Deposit interest and commitment fees paid to the ultimate holding company	**1,189**	1,196
Key management personnel compensation:		
– short term employee benefits	**4,245**	3,936
– post-employment benefits	**275**	257
Interest expense paid to key management personnel	**10**	6

Notes to Interim Financial Statements

29. RELATED PARTY TRANSACTIONS (Continued)

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Related party transactions included in the consolidated statement of financial position:		
Cash and short term funds with the ultimate holding company	**5,046**	1,869
Deposits from the ultimate holding company and fellow subsidiaries	**15,358**	17,028
Bank loans from the ultimate holding company and a fellow subsidiary	**505,000**	514,000
Interest payable to the ultimate holding company and a fellow subsidiary	**156**	129
Loans to key management personnel	**137**	201
Deposits from key management personnel	**1,437**	1,537
Interest payable to key management personnel	**1**	2

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

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

Level 2 financial instruments comprise forward foreign exchange contracts and currency swaps. These instruments have been measured at fair value based on the forward foreign exchange rates that are quoted in an active market. As at 30 June 2017 and 31 December 2016, the effects of discounting were considered insignificant for the Level 2 financial instruments.

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

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

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

For the period ended 30 June 2017 and the year ended 31 December 2016, there were no issues and settlements related to the Level 3 financial instruments.

There was no gain or loss and no OCI reported in the consolidated income statement and consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the period ended 30 June 2017 and the year ended 31 December 2016.

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

Notes to Interim Financial Statements

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 2017 (Unaudited)							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Cash and short term placements	959,859	4,050,062	–	–	–	–	–	5,009,921
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	1,226,717	634,305	–	–	–	1,861,022
Loans and advances and receivables (gross)	893,207	1,815,043	2,026,299	2,825,008	6,162,909	15,007,337	203,360	28,933,163
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	99,918	501,447	3,112,663	1,721,285	–	–	5,435,313
Other assets	229	64,591	13,651	26,201	–	–	45,601	150,273
Foreign exchange contracts (gross)	–	1,545,159	134,958	–	–	–	–	1,680,117
Total financial assets	1,853,295	7,574,773	3,903,072	6,598,177	7,884,194	15,007,337	255,765	43,076,613
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	48,639	379,335	50,000	60,000	–	–	–	537,974
Customer deposits at amortised cost	9,614,872	7,101,945	10,423,347	5,894,975	1,286,478	–	–	34,321,617
Certificates of deposit issued at amortised cost	–	–	–	752,845	–	–	–	752,845
Unsecured bank loans at amortised cost	–	55,000	–	450,000	1,094,173	–	–	1,599,173
Other liabilities	1,263	91,412	21,375	20,534	21,813	–	196,772	353,169
Foreign exchange contracts (gross)	–	1,538,216	133,964	–	–	–	–	1,672,180
Total financial liabilities	9,664,774	9,165,908	10,628,686	7,178,354	2,402,464	–	196,772	39,236,958
Net liquidity gap	(7,811,479)	(1,591,135)	(6,725,614)	(580,177)	5,481,730	15,007,337	58,993	3,839,655

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

	31 December 2016 (Audited)							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Cash and short term placements	1,378,755	2,878,024	–	–	–	–	–	4,256,779
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	1,750,984	471,841	–	–	–	2,222,825
Loans and advances and receivables (gross)	715,197	1,989,010	1,424,888	2,858,509	6,315,552	15,624,459	259,382	29,186,997
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	155,009	1,244,144	3,094,868	1,199,840	–	–	5,693,861
Other assets	293	31,631	15,413	31,197	–	–	19,747	98,281
Foreign exchange contracts (gross)	–	824,229	208,616	181,671	–	–	–	1,214,516
Total financial assets	2,094,245	5,877,903	4,644,045	6,638,086	7,515,392	15,624,459	285,933	42,680,063
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	58,788	597,212	151,152	122,240	–	–	–	929,392
Customer deposits at amortised cost	8,957,430	6,713,868	11,244,633	6,170,097	635,252	–	–	33,721,280
Certificates of deposit issued at amortised cost	–	529,990	542,788	–	–	–	–	1,072,778
Unsecured bank loans at amortised cost	–	414,000	–	100,000	1,092,143	–	–	1,606,143
Other liabilities	361	56,776	19,709	27,110	10,788	–	298,314	413,058
Foreign exchange contracts (gross)	–	841,281	212,083	183,897	–	–	–	1,237,261
Total financial liabilities	9,016,579	9,153,127	12,170,365	6,603,344	1,738,183	–	298,314	38,979,912
Net liquidity gap	(6,922,334)	(3,275,224)	(7,526,320)	34,742	5,777,209	15,624,459	(12,381)	3,700,151

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 risk, mainly interest rate risk, market risk, credit risk, liquidity risk and operational risk. The respective Boards of Public Bank (Hong Kong) and Public Finance review and approve policies for managing each of these risks and they are summarised below.

Risk management structure

The Group's risk management is underpinned by the Group's risk appetite and is subject to the respective Boards' oversight, through the Risk Management Committees ("RMCs") of 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 of Public Bank (Hong Kong) and Public Finance and reviewed regularly by their management, and other designated committees or working groups. Material risks are identified and assessed by designated committees and/or working groups before the launch of new products or business activities, and are monitored, documented and controlled against applicable risk limits after the introduction of new products or services or implementation of new business activities. Internal auditors of 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.

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

Market risk management

(a) Currency risk

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

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

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(a) Currency risk (Continued)

As at 30 June 2017, if RMB had strengthened or weakened by 100 basis points against HKD with all other variables held constant, the Group's equity would have increased or decreased by HK$12 million (31 December 2016: HK$12 million) mainly as a result of foreign exchange impact arising from net structural position of RMB denominated operating capital.

(b) Price risk

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

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

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

Credit risk management

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

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

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and its capital resources. Its policy on connected lending 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 Departments of Public Bank (Hong Kong) and Public Finance to evaluate the effectiveness of credit reviews, approval and monitoring processes and to ensure that the established credit policies and procedures are complied with.

Compliance Departments of Public Bank (Hong Kong) and Public Finance conduct compliance test at selected business units on identified high risk areas for adherence to regulatory and operational requirements and credit policies.

Credit Committees of Public Bank (Hong Kong) and Public Finance monitor the quality of financial assets which are neither past due nor impaired by financial performance indicators (such as the loan-to-value ratio, debts servicing ratio, financial soundness of borrowers and personal guarantees) through meeting discussions and management 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 meeting discussions and management reports. Impaired financial assets include those subject to personal bankruptcy petitions, corporate winding-up and rescheduled arrangements.

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

Notes to Interim Financial Statements

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 management 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 management reports or market information obtained from Treasury Department and business units, a designated ALCO member will convene a meeting (involving senior management members) to discuss risk related matters and propose actions to ALCO whenever necessary. A high level summary of the liquidity risk performance of 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 stress scenarios; concentration related limits of deposits and other funding sources, and maturity profile of major assets and liabilities (including on-balance sheet and off-balance sheet items).

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

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Liquidity maintenance ratio

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

	For the six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Public Bank (Hong Kong):		
Consolidated average liquidity maintenance ratio	**47.0%**	46.7%

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

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

Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, human and 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 2017 (Unaudited)	31 December 2016 (Audited)
Group:		
Consolidated CET1 Capital Ratio	**14.1%**	12.9%
Consolidated Tier 1 Capital Ratio	**14.1%**	12.9%
Consolidated Total Capital Ratio	**15.5%**	14.2%
Public Bank (Hong Kong):		
Consolidated CET1 Capital Ratio	**17.9%**	16.6%
Consolidated Tier 1 Capital Ratio	**17.9%**	16.6%
Consolidated Total Capital Ratio	**19.0%**	`17.7%

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

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 2017 is 1.25%. 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 1.25%, to the private sector credit exposures in Hong Kong that has been applied since 1 January 2017.

Notes to Interim Financial Statements

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 2017 (Unaudited)				
1. Hong Kong	**1.250**	**17,084,319**		
2. Mainland China	**0.000**	**1,783,473**		
Total		**18,867,792**	**1.132**	**213,554**

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

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

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 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.), 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 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 remained very challenging and affected by volatilities of fund flows, slowdown of economic growth momentum and conservative market sentiment due to uncertainties in the global economic environment. The moderation of economic activities, partly due to deleveraging efforts of enterprises in some industry sectors in Mainland China also had profound impact on business developments of Hong Kong enterprises which have core operations in Mainland China. The slowdown in domestic retail sales and the volatilities in local property prices further dampened economic sentiment and constrained domestic credit demand in the banking sector of Hong Kong. In light of the uncertainties, the Group adopted a cautious approach in growing its loans with reasonable interest yields during the period under review.

FINANCIAL REVIEW

Revenue and earnings

For the six months ended 30 June 2017, the Group's profit after tax increased by HK$37.8 million or 18.9% to HK$238.1 million as compared to the corresponding period in 2016. The Group's basic earnings per share for the six months ended 30 June 2017 was HK$0.22. The Board of Directors has declared an interim dividend of HK$0.05 per share on 29 June 2017, payable on 9 August 2017.

During the period under review, total interest income of the Group increased by HK$33.7 million or 4.0% to HK$866.4 million from increase in interest on bank placements and held-to-maturity debt securities, whilst total interest expense increased by HK$27.5 million or 16.7% to HK$191.3 million due to increase in cost of funding of customer deposits. As a result, the Group's net interest income increased by HK$6.2 million or 0.9% to HK$675.1 million. Other operating income from loan transactions, stockbroking, insurance and other business activities of the Group increased by HK$9.3 million or 9.2% to HK$110.0 million in the period under review.

Operating expenses of the Group increased by HK$25.7 million or 6.5% to HK$421.8 million mainly due to the increase in staff related costs.

Impairment allowance for loans and advances decreased by HK$53.4 million or 41.7% to HK$74.7 million due to improvement of loan asset quality and increase in recovery of impaired loans during 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$243.1 million or 0.8% to HK$28.84 billion as at 30 June 2017 from HK$29.08 billion as at 31 December 2016, partly due to repayments of foreign currency loans of some customers based in Mainland China driven by the volatilities of Renminbi during the period under review. The Group's customer deposits grew by HK$600.3 million or 1.8% to HK$34.32 billion as at 30 June 2017 from HK$33.72 billion as at 31 December 2016. Total assets of the Group stood at HK$45.19 billion as at 30 June 2017.

Group's branch network

Public Bank (Hong Kong), a subsidiary of the Company, has 32 branches in Hong Kong and 4 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 7 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 2017 to serve its customers.

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$443.3 million or 1.9% to HK$23.05 billion as at 30 June 2017 from HK$23.49 billion as at 31 December 2016. Customer deposits increased by HK$311.3 million or 1.1% to HK$29.46 billion as at 30 June 2017 from HK$29.15 billion as at 31 December 2016. Impaired loans to total loans ratio of Public Bank (Hong Kong) was 0.30% as at 30 June 2017.

Public Bank (Hong Kong) will continue to develop and expand its retail and commercial banking businesses and its customer base, identify suitable locations for the establishment of new branches and the relocation of its existing branches 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$174.4 million or 3.3% to HK$5.54 billion as at 30 June 2017 from HK$5.36 billion as at 31 December 2016. Customer deposits increased by HK$162.3 million or 3.3% to HK$5.14 billion as at 30 June 2017 from HK$4.98 billion as at 31 December 2016. Impaired loans to total loans ratio of Public Finance was 1.85% as at 30 June 2017.

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. 96.6% of the Group's operating income and 95.2% 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 2016, the Group's operating income from retail and commercial banking businesses increased by HK$12.2 million or 1.6% to HK$758.5 million due to increase in net interest income and stockbroking commission fee income. Profit before tax from retail and commercial banking businesses also increased by HK$40.3 million or 16.9% to HK$279.1 million due to a decrease in impairment allowance for loans and advances from decline in impaired loans 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 2017, there was no charge over the assets of the Group. There was no important event affecting the Group which has occurred since 30 June 2017.

Management Discussion and Analysis

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 material acquisitions or disposals of subsidiaries or associates 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$1.60 billion as at 30 June 2017. 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 0.21 times as at 30 June 2017 as compared to 0.22 times as at 31 December 2016. The bank borrowings have remaining average maturity period of less than one year. 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 foreign 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 17.9% and 19.0% respectively as at 30 June 2017.

Asset quality and credit management

The Group's impaired loans to total loans ratio improved to a healthy level of 0.69% as at 30 June 2017 due to the recovery of some large impaired loans and also improvement in overall loan asset quality as compared to the level of 0.87% as at 31 December 2016.

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

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.

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 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 and regulatory 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 2017, the Group's staff force stood at 1,367 employees. For the six months ended 30 June 2017, the Group's total staff related costs amounted to HK$267.2 million.

Management Discussion and Analysis

PROSPECTS

The volatilities of global fund flows are expected to continue into the second half of the year amid a possible faster pace of central banks' interest rate normalisation and downsizing of their balance sheets. Potential shift of paradigm from easing to tightening monetary policies, uncertainties of fiscal policy developments surrounding the new United States administration, and the complexities of Brexit process and geopolitical risks in Europe will continue to cause uncertainties to the global economic conditions. Increase in the United States dollars interest rates will also impact Hong Kong dollars interest rate to rise and affect market sentiments, constrain private consumption growth and risk appetite for corporate investments and business expansions in Hong Kong and China.

Competition in the banking and financing industry is also 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 increasing compliance related resources costs 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 2017. The Group is also committed to fostering a healthy and strong corporate culture to enhance the Group's cohesiveness with shared vision and values by every staff in the Group.

Other Information

INTERIM DIVIDEND

The Board has on 29 June 2017 declared an interim dividend of HK$0.05 (2016: HK$0.05) per share payable on 9 August 2017 to shareholders whose names appear on the register of members of the Company on 26 July 2017.

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 2016 up to 20 July 2017 (being the date of approval of the Group's Interim Report 2017) are set out below:

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 Malayan Flour Mills Berhad, a public listed company in Malaysia, with effect from 25 May 2017.

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 2017, 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	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	200,030	–	–	–	200,030	0.0052
		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

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.

Other Information

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

As at 30 June 2017, 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 associates (together "the AA Group") on behalf of accounts managed by the AA Group	Investment manager	65,572,000	5.9724

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 the 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.

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 2017.

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 2017 Interim Report, in compliance with the code provisions ("Code Provision(s)") of 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 Board Chairman of the Company, was absent from the 2017 AGM of the Company held in March 2017 due to other engagement. The 2017 AGM was chaired by the Co-Chairman of the Board, Mr. Lai Wan. The Chairmen of the Company's Audit Committee, Remuneration Committee and Nomination Committee, and the respective Chairman of the Risk Management Committees of Public Bank (Hong Kong) and Public Finance also attended the 2017 AGM to answer questions raised therein, if any.

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 Audit Committee of the Company comprises three Independent Non-Executive Directors, namely Mr. Tang Wing Chew, Mr. Lee Chin Guan and Mr. Lai Wan, and one Non-Executive Director, namely Mr. Quah Poh Keat. The 2017 Interim Report has been reviewed by the Audit Committee.

Other Information

PUBLICATION OF 2017 INTERIM REPORT

The 2017 Interim Report in electronic form is now available on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.publicfinancial.com.hk. Printed copies are also available upon written request to the Company c/o the Company's Share Registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by specifying the name, address and request to receive the Group's Interim Report in printed copy.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my gratitude to the management and staff of the Group for their commitment and contribution during the period. I would also like to express my appreciation to the guidance from the regulators and continued support from our shareholders and customers.

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

20 July 2017