PUBLIC BANK (HONG KONG) LIMITED

Interim Financial Statements
for the six months ended 30 June 2014

Contents

PUBLIC BANK (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)
(Website: www.publicbank.com.hk)

INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

The Board of Directors (the "Board") of Public Bank (Hong Kong) Limited (the "Bank") is pleased to announce the unaudited condensed consolidated results of the Bank and its subsidiaries (the "Group") for the six months ended 30 June 2014 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	**For the six months ended 30 June 2014 (Unaudited) HK$'000**	2013 (Unaudited) HK$'000
Interest income	6	**782,917**	810,299
Interest expense	6	**(174,735)**	(147,815)
NET INTEREST INCOME		**608,182**	662,484
Other operating income	7	**96,868**	109,183
OPERATING INCOME		**705,050**	771,667
Operating expenses	8	**(378,538)**	(383,231)
Changes in fair value of investment properties		**786**	1,614
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**327,298**	390,050
Impairment allowances for loans and advances and receivables	9	**(117,858)**	(160,753)
PROFIT BEFORE TAX		**209,440**	229,297
Tax	10	**(38,411)**	(41,801)
PROFIT FOR THE PERIOD		**171,029**	187,496
ATTRIBUTABLE TO:			
Owners of the Bank		**171,029**	187,496

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT FOR THE PERIOD	**171,029**	187,496
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange (loss)/gain on translating foreign operations, net of tax	**(15,452)**	9,553
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**155,577**	197,049
ATTRIBUTABLE TO:		
Owners of the Bank	**155,577**	197,049

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2014 (Unaudited) HK$'000**	31 December 2013 (Audited) HK$'000
ASSETS			
Cash and short term placements	12	**3,707,945**	3,960,412
Placements with banks and financial institutions maturing after one month but not more than twelve months	13	**1,142,792**	1,195,991
Derivative financial instruments	27	**2,303**	771
Loans and advances and receivables	14	**27,502,435**	27,027,116
Available-for-sale financial assets	15	**6,804**	6,804
Held-to-maturity investments	16	**4,647,528**	4,780,905
Interests in a joint venture		**1,513**	1,513
Deferred tax assets		**27,935**	30,542
Tax recoverable		**927**	8,372
Intangible assets	18	**718**	718
Property and equipment	19	**64,108**	65,264
Land held under finance leases	20	**99,841**	101,472
Investment properties	21	**66,329**	65,543
Goodwill		**242,342**	242,342
Other assets	17	**123,405**	120,364
TOTAL ASSETS		**37,636,925**	37,608,129
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**466,491**	483,401
Derivative financial instruments	27	**787**	610
Customer deposits at amortised cost	22	**30,629,133**	30,090,403
Certificates of deposit issued at amortised cost		**1,245,429**	1,794,492
Current tax payable		**23,116**	22,285
Deferred tax liabilities		**6,907**	6,907
Other liabilities	17	**298,727**	317,178
TOTAL LIABILITIES		**32,670,590**	32,715,276
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK			
Issued capital	23	**2,854,045**	1,481,600
Reserves	24	**2,112,290**	3,411,253
TOTAL EQUITY		**4,966,335**	4,892,853
TOTAL EQUITY AND LIABILITIES		**37,636,925**	37,608,129

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
TOTAL EQUITY		
Balance at the beginning of the period	**4,892,853**	5,243,416
Profit for the period	**171,029**	187,496
Other comprehensive income	**(15,452)**	9,553
Total comprehensive income for the period	**155,577**	197,049
Dividends paid in respect of previous year	**(82,095)**	(77,560)
Balance at the end of the period	**4,966,335**	5,362,905

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
NET CASH FLOWS FROM:		
OPERATING ACTIVITIES	**(748,858)**	(825,825)
INVESTING ACTIVITIES	**(7,234)**	(5,398)
FINANCING ACTIVITIES	**(82,095)**	(75,775)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(838,187)**	(906,998)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**5,327,141**	5,459,437
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**4,488,954**	4,552,439
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and short term placements repayable on demand	**911,451**	673,769
Money at call and short notice with an original maturity within three months	**2,796,494**	3,145,270
Placements with banks and financial institutions with an original maturity within three months	**422,063**	281,163
Held-to-maturity investments with an original maturity within three months	**358,946**	452,237
	4,488,954	4,552,439

NOTES TO INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in compliance with the Banking (Disclosure) Rules (“BDR”) issued by the Hong Kong Monetary Authority (the “HKMA”).

The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s 2013 Annual Report.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group’s 2013 Annual Report, except for the changes in accounting policies as set out in note 4 below.

2. BASIS OF CONSOLIDATION

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

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

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

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

2. BASIS OF CONSOLIDATION (Continued)

The subsidiaries consolidated for accounting purpose are as follows:

Name	30 June 2014 Total Assets (Unaudited) HK$	30 June 2014 Total Equity (Unaudited) HK$	Principal activities
Public Financial Securities Limited	72,734,462	47,893,480	Securities brokerage
Public Bank (Nominees) Limited	100,000	100,000	Provision of nominee services
Public Investments Limited	200	200	Dormant
Public Realty Limited	99,208	99,208	Dormant
Public Credit Limited	2,471,985	2,471,985	Dormant
Public Futures Limited	1	1	Dormant
Public Pacific Securities Limited	4,950,628	3,455,262	Dormant
Public Finance Limited (“Public Finance”)*	5,565,877,104	1,429,852,965	Deposit-taking and financing
Public Financial Limited	10,101,371	10,101,371	Investment holding
Public Securities Limited	191,196,786	139,979,701	Securities brokerage
Public Securities (Nominees) Limited	1,101,571	1,083,797	Provision of nominee services

* The financial entity specified by the HKMA to form the basis of consolidation for regulatory reporting purpose in respect of capital adequacy ratio and liquidity ratio.

NOTES TO INTERIM FINANCIAL STATEMENTS

3. BASIS OF CAPITAL DISCLOSURES

The Group has complied with the capital requirements during the interim reporting period related to capital base and the capital adequacy ratio as stipulated by the HKMA, and has also complied with the Guideline on the Application of the BDR issued by the HKMA.

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

The computation of the consolidated capital adequacy ratio of the Group is based on the ratio of the aggregate of risk weighted exposures to the aggregate of capital bases of the Bank 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 Bank's consolidation group except that liquidity, capital and other performance indicators of Public Financial Securities Limited and Public Securities Limited should satisfy the minimum requirements of the Securities and Futures (Financial Resources) Rules issued by the Securities and Futures Commission of Hong Kong.

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

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

4. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are generally effective for accounting periods beginning on or after 1 January 2014. The Group has adopted the following new and revised HKFRSs issued up to 30 June 2014 which are pertinent to its operations and relevant to these interim financial statements.

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

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

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

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

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

4. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

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

Impact of issued but not yet effective HKFRSs

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

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

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

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

4. ACCOUNTING POLICIES (Continued)

Impact of issued but not yet effective HKFRSs (Continued)

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

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

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

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

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

NOTES TO INTERIM FINANCIAL STATEMENTS

4. ACCOUNTING POLICIES (Continued)

Impact of issued but not yet effective HKFRSs (Continued)

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

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

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

5. SEGMENT INFORMATION

Operating segment information

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

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

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

- other businesses segment comprise mainly the letting of investment properties.

5. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

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

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue								
Net interest income	**608,159**	662,436	**23**	48	**-**	-	**608,182**	662,484
Other operating income:								
Fees and commission income	**70,257**	70,563	**15,258**	28,617	**-**	-	**85,515**	99,180
Others	**7,606**	6,405	**(4)**	(1)	**3,751**	3,599	**11,353**	10,003
Operating income	**686,022**	739,404	**15,277**	28,664	**3,751**	3,599	**705,050**	771,667
Profit before tax	**204,009**	212,675	**1,827**	12,352	**3,604**	4,270	**209,440**	229,297
Tax							**(38,411)**	(41,801)
Profit for the period							**171,029**	187,496
Other segment information								
Depreciation of property and equipment and land held under finance leases	**(10,753)**	(11,975)	**-**	-	**-**	-	**(10,753)**	(11,975)
Changes in fair value of investment properties	**-**	-	**-**	-	**786**	1,614	**786**	1,614
Impairment allowances for loans and advances and receivables	**(117,858)**	(160,753)	**-**	-	**-**	-	**(117,858)**	(160,753)
Net losses on disposal of property and equipment	**(86)**	(33)	**-**	-	**-**	-	**(86)**	(33)

The following table represents certain assets and liabilities information regarding operating segments as at 30 June 2014 and 31 December 2013.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	30 June 2014	31 December 2013	**30 June 2014**	31 December 2013	**30 June 2014**	31 December 2013	**30 June 2014**	31 December 2013
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets other than interest in a joint venture, intangible assets and goodwill	**37,001,857**	36,984,870	**295,304**	274,229	**66,329**	65,543	**37,363,490**	37,324,642
Interests in a joint venture	**1,513**	1,513	**-**	-	**-**	-	**1,513**	1,513
Intangible assets	**-**	-	**718**	718	**-**	-	**718**	718
Goodwill	**242,342**	242,342	**-**	-	**-**	-	**242,342**	242,342
Segment assets	**37,245,712**	37,228,725	**296,022**	274,947	**66,329**	65,543	**37,608,063**	37,569,215
Unallocated assets:								
Deferred tax assets and tax recoverable							**28,862**	38,914
Total assets							**37,636,925**	37,608,129
Segment liabilities	**32,529,955**	32,596,432	**106,426**	86,457	**4,186**	3,195	**32,640,567**	32,686,084
Unallocated liabilities:								
Deferred tax liabilities and tax payable							**30,023**	29,192
Total liabilities							**32,670,590**	32,715,276
Other segment information								
Additions to non-current assets – capital expenditure	**8,021**	19,637	**-**	-	**-**	-	**8,021**	19,637

5. SEGMENT INFORMATION (Continued)

Geographical information

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

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

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Segment revenue from external customers:		
Hong Kong	**663,899**	731,804
Mainland China	**41,151**	39,863
	705,050	771,667

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

The following table represents non-current assets information for geographical segments as at 30 June 2014 and 31 December 2013.

	30 June 2014	31 December 2013
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Non-current assets:		
Hong Kong	**457,603**	459,438
Mainland China	**17,249**	17,414
	474,852	476,852

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

Operating income or revenue from major customers

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

6. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**712,073**	760,301
Short term placements and placements with banks	**40,594**	26,672
Held-to-maturity investments	**30,250**	23,326
	782,917	810,299
Interest expense on:		
Deposits from banks and financial institutions	**4,082**	1,844
Deposits from customers	**170,596**	139,411
Bank loans	**57**	6,560
	174,735	147,815

Interest income and interest expense for the six months ended 30 June 2014, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss, amounted to HK$782,917,000 and HK$174,735,000 (2013: HK$810,299,000 and HK$147,815,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2014 amounted to HK$2,655,000 (2013: HK$4,952,000).

NOTES TO INTERIM FINANCIAL STATEMENTS

7. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Fees and commission income:		
Retail and commercial banking	**71,020**	71,377
Wealth management services, stockbroking and securities management	**15,258**	28,617
	86,278	99,994
Less: Fees and commission expenses	**(763)**	(814)
Net fees and commission income	**85,515**	99,180
Gross rental income	**3,770**	3,619
Less: Direct operating expenses	**(19)**	(20)
Net rental income	**3,751**	3,599
Gains less losses arising from dealing in foreign currencies	**4,538**	25,769
Net gains/(losses) on derivative financial instruments	**1,516**	(21,220)
	6,054	4,549
Dividend income from listed investments	**17**	20
Dividend income from unlisted investments	**800**	900
Net losses on disposal of property and equipment	**(86)**	(33)
Others	**817**	968
	96,868	109,183

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

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

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

8. OPERATING EXPENSES

	For the six months ended 30 June 2014 (Unaudited) HK$'000	2013 (Unaudited) HK$'000
Staff costs:		
Salaries and other staff costs	**211,275**	203,136
Pension contributions	**9,853**	10,081
Less: Forfeited contributions	**(4)**	(11)
Net contribution to retirement benefit schemes	**9,849**	10,070
	221,124	213,206
Other operating expenses:		
Operating lease rentals on leasehold buildings	**30,207**	29,296
Depreciation of property and equipment and land held under finance leases	**10,753**	11,975
Administrative and general expenses	**33,476**	36,283
Others	**82,978**	92,471
Operating expenses before changes in fair value of investment properties	**378,538**	383,231

At 30 June 2014 and 2013, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The current period credits arose in respect of staff who left the schemes during the period.

9. IMPAIRMENT ALLOWANCES

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net charge for/(write-back of) impairment losses and allowances:		
- loans and advances	**119,920**	160,427
- trade bills, accrued interest and receivables	**(2,062)**	326
	117,858	160,753
Net charge for impairment losses and allowances:		
- individually assessed	**115,692**	158,608
- collectively assessed	**2,166**	2,145
	117,858	160,753
Of which:		
- new impairment losses and allowances (including any amount directly written off during the period)	**217,066**	261,332
- releases and recoveries	**(99,208)**	(100,579)
Net charge to the consolidated income statement	**117,858**	160,753

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

NOTES TO INTERIM FINANCIAL STATEMENTS

10. TAX

	For the six months ended 30 June **2014** (Unaudited) HK$'000	2013 (Unaudited) HK$'000
Current tax charge :		
Hong Kong	**27,086**	31,013
Overseas	**8,677**	7,285
Under-provision/(over-provision) in prior periods	**41**	(139)
Deferred tax charge, net	**2,607**	3,642
	38,411	41,801

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the locations in which the Bank, its subsidiaries and a joint venture are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	For the six months ended 30 June 2014 (Unaudited)					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**172,402**		**37,038**		**209,440**	
Tax at the applicable tax rate	**28,446**	**16.5**	**9,260**	**25.0**	**37,706**	**18.0**
Estimated tax effect of net expenses that are not deductible	**667**	**0.4**	**-**	**-**	**667**	**0.3**
Estimated tax losses from previous periods utilised	**(3)**	**-**	**-**	**-**	**(3)**	**-**
Adjustments in respect of current tax of previous periods	**41**	**-**	**-**	**-**	**41**	**-**
Tax charge at the Group's effective rate	**29,151**	**16.9**	**9,260**	**25.0**	**38,411**	**18.3**

10. TAX (Continued)

	For the six months ended 30 June 2013 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	187,530		41,767		229,297	
Tax at the applicable tax rate	30,943	16.5	10,442	25.0	41,385	18.0
Estimated tax effect of net expenses that are not deductible	489	0.3	68	0.2	557	0.2
Estimated tax losses from previous periods utilised	(2)	-	-	-	(2)	-
Adjustments in respect of current tax of previous periods	(185)	(0.1)	46	0.1	(139)	-
Tax charge at the Group's effective rate	31,245	16.7	10,556	25.3	41,801	18.2

11. DIVIDENDS

	For the six months ended 30 June			
	2014 (Unaudited)	2013 (Unaudited)	**2014 (Unaudited)**	2013 (Unaudited)
	HK$ per ordinary share	HK$ per ordinary share	**HK$'000**	HK$'000
Interim	**5.714**	5.989	**84,659**	88,733
Special	**2.025**	37.122	**30,002**	550,000
	7.739	43.111	**114,661**	638,733

NOTES TO INTERIM FINANCIAL STATEMENTS

11. DIVIDENDS (Continued)

On 18 July 2014, the Board declared an interim dividend of HK$5.714 per ordinary share totaling HK$84,658,624 together with special dividend of HK$2.025 per ordinary share totaling HK$30,002,400.

On 19 February 2014, a dividend of HK$5.541 per ordinary share totaling HK$82,095,456 was paid to shareholders as the final dividend for 2013.

On 15 July 2013, the Board declared an interim dividend of HK$5.989 per ordinary share totaling HK$88,733,024 together with special dividend of HK$37.122 per ordinary share totaling HK$549,999,552.

On 20 February 2013, a dividend of HK$5.2349 per ordinary share totaling HK$77,560,278 was paid to shareholders as the final dividend for 2012.

12. CASH AND SHORT TERM PLACEMENTS

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Cash on hand	**132,409**	175,895
Placements with banks and financial institutions	**779,042**	1,050,799
Money at call and short notice	**2,796,494**	2,733,718
	3,707,945	3,960,412

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

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

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

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

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

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

14. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Loans and advances to customers	**27,487,808**	27,035,354
Trade bills	**55,745**	55,322
Loans and advances, and trade bills	**27,543,553**	27,090,676
Accrued interest	**70,455**	74,195
	27,614,008	27,164,871
Other receivables	**661**	2,287
Gross loans and advances and receivables	**27,614,669**	27,167,158
Less: Impairment allowances for loans and advances and receivables		
- individually assessed	**(89,206)**	(119,165)
- collectively assessed	**(23,028)**	(20,877)
	(112,234)	(140,042)
Loans and advances and receivables	**27,502,435**	27,027,116

Over 90% of the loans and advances and receivables were unrated exposures. Over 90% of the collateral for the Group's secured loans and advances and receivables were customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

Loans and advances and receivables are summarised as follows:

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Neither past due nor impaired loans and advances and receivables	**27,159,771**	26,633,773
Past due but not impaired loans and advances and receivables	**300,515**	357,818
Individually impaired loans and advances	**151,765**	171,457
Individually impaired receivables	**2,618**	4,110
Total loans and advances and receivables	**27,614,669**	27,167,158

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

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2014 (Unaudited)		31 December 2013 (Audited)	
	Gross amount HK$'000	**Percentage of total loans and advances %**	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	**78,611**	**0.29**	107,463	0.40
One year or less but over six months	**21,805**	**0.08**	3,139	0.01
Over one year	**11,292**	**0.04**	22,897	0.08
Loans and advances overdue for more than three months	**111,708**	**0.41**	133,499	0.49
Rescheduled loans and advances overdue for three months or less	**34,709**	**0.12**	34,291	0.13
Impaired loans and advances overdue for three months or less	**5,348**	**0.02**	3,667	0.01
Total overdue and impaired loans and advances	**151,765**	**0.55**	171,457	0.63

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

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

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

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2014 (Unaudited)			31 December 2013 (Audited)		
	Hong Kong HK$'000	**Mainland China HK$'000**	**Total HK$'000**	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	**104,152**	**10,120**	**114,272**	114,667	22,844	137,511
Individual impairment allowances	**56,653**	**8,528**	**65,181**	76,267	18,921	95,188
Current market value and fair value of collateral			**98,337**			63,853
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**143,920**	**10,463**	**154,383**	151,718	23,849	175,567
Individual impairment allowances	**80,335**	**8,871**	**89,206**	99,238	19,927	119,165
Current market value and fair value of collateral			**104,410**			65,056

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

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**98,337**	63,853
Covered portion of overdue loans and advances	**35,237**	23,646
Uncovered portion of overdue loans and advances	**76,471**	109,853

The assets taken as collateral should satisfy the following criteria:

- The market value of the asset is readily determinable or can be reasonably established and verified.
- The asset is marketable and there exists a readily available secondary market for disposal of the asset.
- The Group's right to repossess the asset is legally enforceable without impediment.
- The Group is able to secure control over the asset if necessary.

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

- Central governments with a grading of Aa3 or above
- Unrated public sector enterprises
- Banks with a grading of Baa2 or above
- Unrated corporations
- Individual shareholders and directors of corporate customers

(d) Repossessed assets

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

NOTES TO INTERIM FINANCIAL STATEMENTS

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2014 (Unaudited)		31 December 2013 (Audited)	
	Gross amount HK$'000	**Percentage of total loans and advances %**	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for three months or less	**300,094**	**1.09**	355,691	1.32
Trade bills, accrued interest and other receivables overdue for three months or less	**421**		2,127	

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2014 (Unaudited) Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
At 1 January 2014	**119,165**	**20,877**	**140,042**
Amounts written off	**(231,306)**	**-**	**(231,306)**
Impairment losses and allowances charged to the consolidated income statement	**212,093**	**4,973**	**217,066**
Impairment losses and allowances released to the consolidated income statement	**(96,401)**	**(2,807)**	**(99,208)**
Net charge of impairment losses and allowances	**115,692**	**2,166**	**117,858**
Loans and advances and receivables recovered	**86,162**	**-**	**86,162**
Exchange difference	**(507)**	**(15)**	**(522)**
At 30 June 2014	**89,206**	**23,028**	**112,234**
Deducted from:			
Loans and advances	**88,960**	**22,959**	**111,919**
Trade bills, accrued interest and other receivables	**246**	**69**	**315**
	89,206	**23,028**	**112,234**

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2013 (Audited)		
	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
At 1 January 2013	124,137	27,394	151,531
Amounts written off	(491,496)	-	(491,496)
Impairment losses and allowances charged to the consolidated income statement	509,080	307	509,387
Impairment losses and allowances released to the consolidated income statement	(180,096)	(7,260)	(187,356)
Net charge/(release) of impairment losses and allowances	328,984	(6,953)	322,031
Loans and advances and receivables recovered	157,185	-	157,185
Exchange difference	355	436	791
At 31 December 2013	119,165	20,877	140,042
Deducted from:			
Loans and advances	116,908	20,768	137,676
Trade bills, accrued interest and other receivables	2,257	109	2,366
	119,165	20,877	140,042

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(g) Finance lease receivables

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

	30 June 2014 (Unaudited)		31 December 2013 (Audited)	
	Minimum lease payments HK$'000	**Present value of minimum lease payments HK$'000**	Minimum lease payments HK$'000	Present value of minimum lease payments HK$'000
Amounts receivable under finance leases:				
Within one year	**376,590**	**282,455**	384,485	289,489
In the second to fifth years, inclusive	**1,110,483**	**807,571**	1,115,486	812,964
Over five years	**3,867,650**	**3,228,939**	3,850,125	3,215,212
	5,354,723	**4,318,965**	5,350,096	4,317,665
Less: Unearned finance income	**(1,035,758)**		(1,032,431)	
Present value of minimum lease payments receivable	**4,318,965**		4,317,665	

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.

NOTES TO INTERIM FINANCIAL STATEMENTS

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

16. HELD-TO-MATURITY INVESTMENTS

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

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

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

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

17. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Interest receivables from financial institutions	**16,464**	10,736
Other debtors, deposits and prepayments	**98,696**	87,448
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	**8,245**	22,180
	123,405	120,364

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

Other liabilities

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Interest payable	**86,196**	90,191
Creditors, accruals and other payables	**185,699**	226,987
Net amount of accounts payable to HKSCC	**26,832**	-
	298,727	317,178

18. INTANGIBLE ASSETS

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Cost:		
At the beginning of the period/year and at the end of the period/year	**1,923**	1,923
Accumulated impairment:		
At the beginning of the period/year and at the end of the period/year	**1,205**	1,205
Net carrying amount:		
At the beginning of the period/year and at the end of the period/year	**718**	718

Intangible assets represent trading rights held by the Group. The trading rights are retained for stock trading and stockbroking activities, and have indefinite useful lives as the trading rights have no expiry date. They comprise five units (2013: five units) of Stock Exchange Trading Right and one unit (2013: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

19. PROPERTY AND EQUIPMENT

	Buildings (Unaudited) HK$'000	Leasehold improvement, furniture, fixtures, equipment and motor vehicles (Unaudited) HK$'000	Total (Unaudited) HK$'000
Cost:			
At 1 January 2014	**17,090**	**191,117**	**208,207**
Additions	**-**	**8,021**	**8,021**
Disposals/write-off	**-**	**(266)**	**(266)**
At 30 June 2014	**17,090**	**198,872**	**215,962**
Accumulated depreciation:			
At 1 January 2014	**5,705**	**137,238**	**142,943**
Provided during the period	**221**	**8,901**	**9,122**
Disposals/write-off	**-**	**(180)**	**(180)**
Exchange difference	**(31)**	**-**	**(31)**
At 30 June 2014	**5,895**	**145,959**	**151,854**
Net carrying amount:			
At 30 June 2014	**11,195**	**52,913**	**64,108**
At 31 December 2013 (Audited)	11,385	53,879	65,264

19. PROPERTY AND EQUIPMENT (Continued)

	Buildings (Audited) HK$'000	Leasehold improvement, furniture, fixtures, equipment and motor vehicles (Audited) HK$'000	Total (Audited) HK$'000
Cost:			
At 1 January 2013	17,090	177,308	194,398
Additions	-	19,637	19,637
Disposals/write-off	-	(5,828)	(5,828)
At 31 December 2013	17,090	191,117	208,207
Accumulated depreciation:			
At 1 January 2013	5,327	123,222	128,549
Provided during the year	342	19,794	20,136
Disposals/write-off	-	(5,778)	(5,778)
Exchange difference	36	-	36
At 31 December 2013	5,705	137,238	142,943
Net carrying amount:			
At 31 December 2013	11,385	53,879	65,264
At 31 December 2012	11,763	54,086	65,849

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

20. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
At 1 January 2013, 31 December 2013, 1 January 2014 (Audited) and 30 June 2014 (Unaudited)	**137,196**
Accumulated depreciation and impairment:	
At 1 January 2013	32,463
Depreciation provided during the year	3,261
At 31 December 2013 and 1 January 2014 (Audited)	**35,724**
Depreciation provided during the period	**1,631**
At 30 June 2014 (Unaudited)	**37,355**
Net carrying amount:	
At 30 June 2014 (Unaudited)	**99,841**
At 31 December 2013 (Audited)	101,472

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

21. INVESTMENT PROPERTIES

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Carrying amount at the beginning of the period/year	**65,543**	63,564
Changes in fair value recognised in consolidated income statement	**786**	1,979
Carrying amount at the end of the period/year	**66,329**	65,543

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. The Group has assessed that the highest and best use of its properties did not differ from their existing use.

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

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

	30 June 2014 (Unaudited) Range (weighted average)	31 December 2013 (Audited) Range (weighted average)
Price per square metre	**HK$66,000 to HK$450,000 (HK$195,000)**	HK$65,000 to HK$442,000 (HK$191,000)

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

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

22. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Demand deposits and current accounts	**2,323,216**	2,360,044
Savings deposits	**4,492,654**	4,068,613
Time, call and notice deposits	**23,813,263**	23,661,746
	30,629,133	30,090,403

23. ISSUED CAPITAL

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Issued and fully paid:		
14,816,000 (2013: 14,816,000) ordinary shares	**2,854,045**	1,481,600

A summary of the transactions in the Bank's issued share capital recorded during the period is shown as follows:

	Issued capital HK$'000
As at 1 January 2013, 31 December 2013 and 1 January 2014 (Audited)	**1,481,600**
Transfer from share premium (Note)	**1,372,445**
As at 30 June 2014 (Unaudited)	**2,854,045**

Note:

Pursuant to the transitional provisions for the abolition of the nominal value of shares included in the new Hong Kong Companies Ordinance (Chapter 622) which became effective on 3 March 2014, the balance of the share premium account as at 3 March 2014 has been transferred to issued capital.

24. RESERVES

	Share premium account HK$'000	Group reconstruction reserve HK$'000	Capital reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Translation reserve HK$'000	Total HK$'000
At 1 January 2013	1,372,445	3,065	17,660	409,367	1,888,208	71,071	3,761,816
Profit for the year	-	-	-	-	352,069	-	352,069
Other comprehensive income	-	-	-	-	-	13,661	13,661
Transfer from retained profits	-	-	-	778	(778)	-	-
Dividends paid in respect of previous year	-	-	-	-	(77,560)	-	(77,560)
Dividends paid in respect of current year	-	-	-	-	(638,733)	-	(638,733)
At 31 December 2013 and 1 January 2014 (Audited)	**1,372,445**	**3,065**	**17,660**	**410,145**	**1,523,206**	**84,732**	**3,411,253**
Transfer to issued capital (Note 23)	**(1,372,445)**	**-**	**-**	**-**	**-**	**-**	**(1,372,445)**
Profit for the period	**-**	**-**	**-**	**-**	**171,029**	**-**	**171,029**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(15,452)**	**(15,452)**
Transfer from retained profits	**-**	**-**	**-**	**13,488**	**(13,488)**	**-**	**-**
Dividends paid in respect of previous year	**-**	**-**	**-**	**-**	**(82,095)**	**-**	**(82,095)**
At 30 June 2014 (Unaudited)	**-**	**3,065**	**17,660**	**423,633**	**1,598,652**	**69,280**	**2,112,290**

Note:

In accordance with the HKMA's guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reporting" (the "Guideline"), the Group's regulatory reserve and collective impairment allowances were included as CET1 capital in the Group's capital base at 30 June 2014 as defined in the Guideline. The regulatory reserve was held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to the Guideline from the HKMA.

25. OFF-BALANCE SHEET EXPOSURE

(a) Contingent liabilities, commitments and derivatives

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

			30 June 2014 (Unaudited)		
	Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	**213,312**	**213,312**	**81,753**	**-**	**-**
Transaction-related contingencies	**16,991**	**8,495**	**3,799**	**-**	**-**
Trade-related contingencies	**30,135**	**6,027**	**5,771**	**-**	**-**
Forward forward deposits placed	**-**	**-**	**-**	**-**	**-**
Forward asset purchases	**637**	**637**	**127**	**-**	**-**
	261,075	**228,471**	**91,450**	**-**	**-**
Derivatives held for trading :					
Foreign exchange rate contracts	**1,618,184**	**7,673**	**-**	**2,303**	**787**
Other commitments with an original maturity of:					
Not more than one year	**-**	**-**	**-**	**-**	**-**
More than one year	**82,657**	**41,329**	**41,329**	**-**	**-**
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	**3,960,966**	**-**	**-**	**-**	**-**
	5,922,882	**277,473**	**132,779**	**2,303**	**787**
Capital commitments contracted for, but not provided in the consolidated statement of financial position	**4,025**				

25. OFF-BALANCE SHEET EXPOSURE (Continued)

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

	31 December 2013 (Audited)				
	Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	172,109	172,109	61,526	-	-
Transaction-related contingencies	11,080	5,540	2,150	-	-
Trade-related contingencies	53,464	10,693	10,216	-	-
Forward forward deposits placed	6,916	6,916	1,383	-	-
Forward asset purchases	2,970	2,970	594	-	-
	246,539	198,228	75,869	-	-
Derivatives held for trading :					
Foreign exchange rate contracts	434,721	3,101	19	771	610
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	115,829	57,914	57,914	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,982,241	-	-	-	-
	4,779,330	259,243	133,802	771	610
Capital commitments contracted for, but not provided in the consolidated statement of financial position	4,004				

25. OFF-BALANCE SHEET EXPOSURE (Continued)

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

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

At 30 June 2014 and 31 December 2013, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

(b) Derivative financial instruments

The Group uses the following derivative financial instruments:

Currency forwards represent commitments to purchase foreign and domestic currencies, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell 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.

26. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties in note 21 under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

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

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Within one year	**1,959**	2,889
In the second to fifth years, inclusive	**1,256**	878
	3,215	3,767

(b) As lessee

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

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

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Within one year	**82,637**	58,862
In the second to fifth years, inclusive	**38,494**	34,297
	121,131	93,159

27. 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.

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

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

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

27. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

Level 2 financial instruments comprise forward foreign exchange contracts and currency swaps. These instruments have been measured at fair value based on the forward foreign exchange rates that are quoted in an active market. At 30 June 2014, the effects of discounting are considered insignificant for the Level 2 financial instruments.

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

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

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

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

There was no gain or loss and no OCI reported in consolidated income statement and consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the period ended 30 June 2014 and for the year ended 31 December 2013.

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

NOTES TO INTERIM FINANCIAL STATEMENTS

28. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

30 June 2014 (Unaudited)

	Repayable on demand HK$'000	**Up to 1 month HK$'000**	**Over 1 month but not more than 3 months HK$'000**	**Over 3 months but not more than 12 months HK$'000**	**Over 1 year but not more than 5 years HK$'000**	**Over 5 years HK$'000**	**Repayable within an indefinite period HK$'000**	**Total HK$'000**
Financial assets:								
Cash and short term placements	**911,451**	**2,796,494**	**-**	**-**	**-**	**-**	**-**	**3,707,945**
Placements with banks and financial institutions maturing after one month but not more than twelve months	**-**	**-**	**634,445**	**508,347**	**-**	**-**	**-**	**1,142,792**
Loans and advances and receivables	**706,264**	**1,294,492**	**1,319,995**	**3,561,682**	**6,442,428**	**14,183,644**	**106,164**	**27,614,669**
Available-for-sale financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**6,804**	**6,804**
Held-to-maturity investments	**-**	**218,348**	**903,867**	**2,638,713**	**886,600**	**-**	**-**	**4,647,528**
Other assets	**118**	**57,701**	**8,177**	**5,789**	**-**	**-**	**51,620**	**123,405**
Foreign exchange contracts (gross)	**-**	**1,365,222**	**252,962**	**-**	**-**	**-**	**-**	**1.618,184**
Total financial assets	**1,617,833**	**5,732,257**	**3,119,446**	**6,714,531**	**7,329,028**	**14,183,644**	**164,588**	**38,861,327**
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	**38,760**	**227,731**	**150,000**	**50,000**	**-**	**-**	**-**	**466,491**
Customer deposits at amortised cost	**6,827,963**	**8,361,533**	**11,506,114**	**3,348,968**	**584,555**	**-**	**-**	**30,629,133**
Certificates of deposit issued at amortised cost	**-**	**579,962**	**-**	**665,467**	**-**	**-**	**-**	**1,245,429**
Other liabilities	**597**	**86,437**	**29,869**	**17,745**	**17,017**	**-**	**147,062**	**298,727**
Foreign exchange contracts (gross)	**-**	**1,363,953**	**252,715**	**-**	**-**	**-**	**-**	**1,616,668**
Total financial liabilities	**6,867,320**	**10,619,616**	**11,938,698**	**4,082,180**	**601,572**	**-**	**147,062**	**34,256,448**

31 December 2013 (Audited)

	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Cash and short term placements	1,226,694	2,733,718	-	-	-	-	-	3,960,412
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	987,374	208,617	-	-	-	1,195,991
Loans and advances and receivables	566,042	1,100,076	1,558,405	3,466,758	6,489,549	13,857,940	128,388	27,167,158
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	1,110,396	651,539	2,355,704	663,266	-	-	4,780,905
Other assets	123	60,035	3,435	4,605	-	-	52,166	120,364
Foreign exchange contracts (gross)	-	433,194	1,527	-	-	-	-	434,721
Total financial assets	1,792,859	5,437,419	3,202,280	6,035,684	7,152,815	13,857,940	187,358	37,666,355
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	24,555	258,846	100,000	100,000	-	-	-	483,401
Customer deposits at amortised cost	6,442,994	9,248,976	10,981,097	3,101,896	315,440	-	-	30,090,403
Certificates of deposit issued at amortised cost	-	-	199,876	1,184,767	409,849	-	-	1,794,492
Other liabilities	416	85,779	31,784	32,462	8,576	-	158,161	317,178
Foreign exchange contracts (gross)	-	433,042	1,518	-	-	-	-	434,560
Total financial liabilities	6,467,965	10,026,643	11,314,275	4,419,125	733,865	-	158,161	33,120,034

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Risk management

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

Market risk management

(a) Interest rate risk

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(b) Currency risk

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

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

At 30 June 2014, if RMB had strengthened or weakened by 100 basis points against HKD with all other variables held constant, the Group's equity would have increased or decreased by HK$6 million (31 December 2013: HK$6 million) mainly as a result of foreign exchange impact arising from net structural position of RMB denominated operating capital.

(c) Price risk

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

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

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management

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

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

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

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

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

Credit Committees of the Bank and Public Finance monitor the quality of financial assets which are neither past due nor impaired by financial performance indicators (such as the loan-to-value ratio, debts servicing ratio, financial soundness of borrowers and personal guarantees) through meeting discussions, management information systems and reports. Loan borrowers subject to legal proceedings, negative comments from other counterparties and rescheduled arrangements are put under watch lists or under the "special mention" grade for management oversight.

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management (Continued)

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

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

The "Neither past due nor impaired loans and advances and receivables" are shown in note 14 to the interim financial statements.

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

Liquidity risk management

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

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

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

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

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

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

Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, human and system errors or from external events.

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

Capital of the Group for regulatory and risk management purposes includes share capital, 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 ratios against trigger limits and for risk exposures and ensuring compliance with relevant statutory limits, taking into account business growth, dividend payout and other relevant factors.

The Group's policy is to maintain a strong capital base to support the development of the Group's businesses and to meet the statutory capital adequacy ratio and other regulatory capital requirements. Capital is allocated to various business activities of the Group depending on the risks taken by each business division and in accordance with the requirements of relevant regulatory bodies, taking into account current and future activities within a time frame of 3 years.

Capital adequacy ratios

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

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Group:		
Consolidated CET1 Capital Ratio	**17.0%**	17.0%
Consolidated Tier 1 Capital Ratio	**17.0%**	17.0%
Consolidated Total Capital Ratio	**18.2%**	18.1%
Bank:		
CET1 Capital Ratio	**14.1%**	13.9%
Tier 1 Capital Ratio	**14.1%**	13.9%
Total Capital Ratio	**15.3%**	15.1%

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital disclosures

The components of total capital base under Basel III include the following items:

Group

	Note	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
CET1 capital instruments		**2,854,045**	1,481,600
Share premium	23	**-**	1,372,445
Retained earnings		**1,503,421**	1,429,068
Disclosed reserves		**496,571**	498,537
CET1 capital before deduction		**4,854,037**	4,781,650
Deduct:			
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)		**(23,487)**	(22,701)
Regulatory reserve for general banking risk		**(423,633)**	(410,145)
Goodwill		**(242,342)**	(242,342)
Deferred tax assets in excess of deferred tax liabilities		**(19,666)**	(22,273)
CET1 capital after deduction		**4,144,909**	4,084,189
Additional Tier 1 capital		**-**	-
Tier 1 capital after deductions		**4,144,909**	4,084,189
Reserve attributable to fair value gains		**10,569**	10,215
Regulatory reserve for general banking risk		**247,418**	245,450
Collective provisions		**23,028**	20,877
		270,446	266,327
Tier 2 capital		**281,015**	276,542
Capital base		**4,425,924**	4,360,731

NOTES TO INTERIM FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital disclosures (Continued)

Bank

	Note	**30 June 2014 (Unaudited) HK$'000**	31 December 2013 (Audited) HK$'000
CET1 capital instruments		**2,854,045**	1,481,600
Share premium	23	-	1,372,445
Retained earnings		**1,639,843**	1,558,221
Disclosed reserves		**405,687**	416,665
CET1 capital before deduction		**4,899,575**	4,828,931
Deduct:			
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)		**(18,749)**	(18,248)
Regulatory reserve for general banking risk		**(332,749)**	(328,273)
Goodwill		-	-
Deferred tax assets in excess of deferred tax liabilities		**(10,882)**	(11,309)
Direct holdings of CET1 capital instruments issued by a financial sector entity that is a member of the institution's consolidation group		**(1,699,998)**	(1,699,998)
CET1 capital after deduction		**2,837,197**	2,771,103
Additional Tier 1 capital		-	-
Tier 1 capital after deductions		**2,837,197**	2,771,103
Reserve attributable to fair value gains		**8,437**	8,212
Regulatory reserve for general banking risk		**218,377**	215,267
Collective provisions		**10,000**	10,000
		228,377	225,267
Tier 2 capital		**236,814**	233,479
Capital base		**3,074,011**	3,004,582

Capital adequacy ratios at 30 June 2014 and 31 December 2013 were compiled on both solo basis and consolidated basis in accordance with the Capital Rules and Section 97C of the Banking Ordinance for the implementation of the Basel III capital accord. The subsidiary consolidated into capital base and risk weighted exposures is Public Finance.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital disclosures (Continued)

The subsidiaries not included in the computation of the capital adequacy ratios of the Group are Public Bank (Nominees) Limited, Public Investments Limited, Public Realty Limited, Public Credit Limited, Public Futures Limited, Public Pacific Securities Limited, Public Financial Securities Limited, Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited. Deductions from the capital base included investment in the aforesaid subsidiaries and other exposures.

Capital instruments

The following is a summary of the Group's CET1 capital instruments:

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
CET1 capital instruments issued by the Bank		
Ordinary shares:		
14,816,000 issued and fully paid ordinary shares	**2,854,045**	1,481,600

Additional information

To comply with the BDR, the Group will present all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group's published interim financial statements under "Regulatory Disclosure" section on its website: www.publicbank.com.hk on or before 30 September 2014.

The relevant disclosure will include the following information:

- a description of the main features and full terms and conditions of the Group's capital instruments;
- a detailed breakdown of the Group's CET1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions, using the standard disclosure template as specified by the HKMA; and
- a full reconciliation between the Group's accounting and regulatory balance sheets, using the standard disclosure template as specified by the HKMA.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

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

	30 June 2014								
	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	**630,700**	**247**	**116**	**141**	**50**	**584,281**	**92.6**	**1,240**	**1,240**
Building and construction, property development and investment									
Property development	**330,332**	**128**	**-**	**-**	**-**	**272,129**	**82.4**	**-**	**-**
Property investment	**6,580,534**	**2,547**	**-**	**313**	**-**	**6,012,320**	**91.4**	**6,473**	**6,473**
Civil engineering works	**122,926**	**50**	**393**	**619**	**223**	**31,501**	**25.6**	**393**	**393**
Electricity and gas	**754**	**-**	**-**	**-**	**-**	**749**	**99.3**	**-**	**-**
Recreational activities	**7,379**	**3**	**-**	**2**	**-**	**7,220**	**97.8**	**-**	**-**
Information technology	**35,038**	**14**	**-**	**2**	**-**	**6,613**	**18.9**	**-**	**-**
Wholesale and retail trade	**199,999**	**76**	**414**	**466**	**54**	**178,650**	**89.3**	**1,714**	**1,714**
Transport and transport equipment	**4,300,648**	**1,443**	**212**	**270**	**38**	**4,262,359**	**99.1**	**534**	**271**
Hotels, boarding houses and catering	**171,715**	**66**	**-**	**44**	**-**	**153,560**	**89.4**	**-**	**-**
Financial concerns	**374,594**	**145**	**-**	**26**	**-**	**188,425**	**50.3**	**-**	**-**
Stockbrokers									
Margin lending	**209,931**	**81**	**-**	**28**	**-**	**61,132**	**29.1**	**-**	**-**
Others	**1,231**	**-**	**-**	**-**	**-**	**1,231**	**100.0**	**-**	**-**
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	**56,872**	**22**	**-**	**12**	**-**	**36,237**	**63.7**	**-**	**-**
Others	**36,972**	**14**	**-**	**-**	**-**	**34,994**	**94.7**	**-**	**-**
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	**102,702**	**40**	**-**	**1**	**-**	**102,702**	**100.0**	**-**	**-**
Loans for the purchase of other residential properties	**7,679,113**	**2,702**	**-**	**315**	**-**	**7,679,113**	**100.0**	**15,817**	**13,725**
Loans for credit card advances	**12,625**	**5**	**-**	**99**	**194**	**-**	**-**	**16**	**-**
Loans for other business purposes	**21,925**	**8**	**-**	**2**	**-**	**21,925**	**100.0**	**-**	**-**
Loans for other private purposes	**3,680,797**	**13,129**	**73,873**	**210,509**	**221,769**	**231,826**	**6.3**	**106,660**	**69,305**
Trade finance	**850,825**	**329**	**5,026**	**66**	**-**	**766,313**	**90.1**	**10,053**	**10,053**
Other loans and advances	**92,089**	**36**	**-**	**2**	**-**	**80,080**	**87.0**	**-**	**-**
Sub-total	**25,499,701**	**21,085**	**80,034**	**212,917**	**222,328**	**20,713,360**	**81.2**	**142,900**	**103,174**
Loans and advances for use outside Hong Kong	**1,988,107**	**1,874**	**8,926**	**3,748**	**8,798**	**1,790,858**	**90.1**	**8,865**	**8,534**
Total loans and advances (excluding trade bills and other receivables)	**27,487,808**	**22,959**	**88,960**	**216,665**	**231,126**	**22,504,218**	**81.9**	**151,765**	**111,708**

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

	31 December 2013								
	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	664,051	238	38	409	273	360,514	54.3	831	793
Building and construction, property development and investment									
Property development	448,905	157	-	-	-	279,412	62.2	-	-
Property investment	6,402,033	2,234	-	-	-	6,006,607	93.8	3,122	3,122
Civil engineering works	123,211	47	-	7	-	32,392	26.3	-	-
Electricity and gas	801	-	-	-	-	770	96.1	-	-
Recreational activities	2,463	1	-	-	-	2,301	93.4	-	-
Information technology	34,496	12	-	248	247	6,119	17.7	-	-
Wholesale and retail trade	182,453	61	17	530	617	158,003	86.6	24	24
Transport and transport equipment	4,301,391	1,324	99	61	228	4,261,110	99.1	267	267
Hotels, boarding houses and catering	62,615	22	-	-	-	56,683	90.5	-	-
Financial concerns	340,339	119	-	47	-	149,130	43.8	-	-
Stockbrokers									
Margin lending	151,937	53	-	40	-	29,937	19.7	-	-
Others	1,210	-	-	-	-	1,210	100.0	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	29,629	10	-	1	-	2,520	8.5	-	-
Others	88,285	31	-	25	-	88,285	100.0	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	112,079	39	-	-	-	112,079	100.0	-	-
Loans for the purchase of other residential properties	7,455,421	2,387	-	-	-	7,455,421	100.0	7,431	6,940
Loans for credit card advances	13,595	5	104	176	111	-	-	104	99
Loans for other business purposes	16,657	6	-	4	-	16,657	100.0	-	-
Loans for other private purposes	3,648,527	10,949	89,863	487,977	488,567	181,691	5.0	129,339	92,884
Trade finance	782,470	273	5,020	5,099	-	681,929	87.2	10,041	10,041
Other loans and advances	98,016	34	-	-	-	84,408	86.1	-	-
Sub-total	24,960,584	18,002	95,141	494,624	490,043	19,967,178	80.0	151,159	114,170
Loans and advances for use outside Hong Kong	2,074,770	2,766	21,767	14,385	1,418	1,795,804	86.6	20,298	19,329
Total loans and advances (excluding trade bills and other receivables)	27,035,354	20,768	116,908	509,009	491,461	21,762,982	80.5	171,457	133,499

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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

NON-BANK MAINLAND CHINA EXPOSURES

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

	On-balance sheet exposure HK$'million	**Off-balance sheet exposure HK$'million**	**Total exposures HK$'million**	**Individual impairment allowances HK$'million**
As at 30 June 2014				
Mainland China entities	**1,351**	**187**	**1,538**	**9**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**355**	**-**	**355**	**-**
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland China exposures	**-**	**-**	**-**	**-**
	1,706	**187**	**1,893**	**9**

	On-balance sheet exposure HK$'million	Off-balance sheet exposure HK$'million	Total exposures HK$'million	Individual impairment allowances HK$'million
As at 31 December 2013				
Mainland China entities	1,457	154	1,611	18
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	360	-	360	-
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland China exposures	-	-	-	-
	1,817	154	1,971	18

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

CROSS-BORDER CLAIMS

The information of cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, transfer of risk from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country.

The following table illustrates claims on individual countries or areas after taking into account the transfer of risk, amounting to 10% or more of the aggregate cross-border claims.

	Banks and other financial institutions HK$'million	**Public sector entities HK$'million**	**Others HK$'million**	**Total HK$'million**
As at 30 June 2014				
1. Asia Pacific excluding Hong Kong, of which:	**4,332**	**399**	**682**	**5,413**
China	**2,313**	**399**	**512**	**3,224**
2. Western Europe	**1,438**	**-**	**260**	**1,698**

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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

CURRENCY RISK

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

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

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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

LIQUIDITY RATIOS

	For the six months ended 30 June	
	2014	2013
Average liquidity ratios:		
Group	**48.4%**	45.7%
Bank	**42.0%**	40.6%

The average liquidity ratios are computed on both solo basis and consolidated bases using the arithmetic mean of each calendar month's average liquidity ratio as reported in the return relating to liquidity position submitted by the Bank to the HKMA pursuant to Section 63 of the Banking Ordinance in respect of the interim reporting period.

On solo basis, the computation of average liquidity ratio includes only the Head Office and branches of the Bank operating in Hong Kong.

Liquidity ratio computation on consolidated basis is also required by the HKMA. The computation of average liquidity ratio on consolidated basis includes the Head Office, all branches of the Bank and Public Finance.

BUSINESS REVIEW

For the six months ended 30 June 2014, the Group recorded a profit after tax of HK$171.0 million, representing a decrease of HK$16.5 million or 8.8% as compared to the profit after tax of HK$187.5 million for the corresponding period in 2013. The decrease in earnings of the Group for the period under review was due to higher cost of funding on customer deposits and lower contribution from the consumer financing business.

During the period under review, the Group's total interest income decreased by HK$27.4 million or 3.4% to HK$782.9 million, and total interest expense increased by HK$26.9 million or 18.2% to HK$174.7 million due to higher funding costs and growth in average customer deposits. Consequently, net interest income decreased by HK$54.3 million or 8.2% to HK$608.2 million in the period under review.

Other operating income from loan transactions, stockbroking and other businesses of the Group decreased by HK$12.3 million or 11.3% to HK$96.9 million, due to lower contribution from the Group's stockbroking activities.

The Group's operating expenses decreased by HK$4.7 million or 1.2% to HK$378.5 million mainly due to the decrease in marketing costs.

Impairment allowances for loans and advances and receivables decreased by HK$42.9 million or 26.7% to HK$117.9 million due to improvement in loan asset quality and recovery of bad debts from some impaired loans. Impaired loans to total loans ratio improved by 0.08% to 0.55% as at 30 June 2014 from 0.63% as at 31 December 2013.

The Group's total loans and advances (including trade bills) grew by HK$452.9 million or 1.7% to HK$27.54 billion as at 30 June 2014 from HK$27.09 billion as at 31 December 2013. The Group's deposits from customers also grew by HK$538.7 million or 1.8% to HK$30.63 billion as at 30 June 2014 from HK$30.09 billion as at 31 December 2013. Total assets of the Group stood at HK$37.64 billion as at 30 June 2014.

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

Hong Kong, 18 July 2014