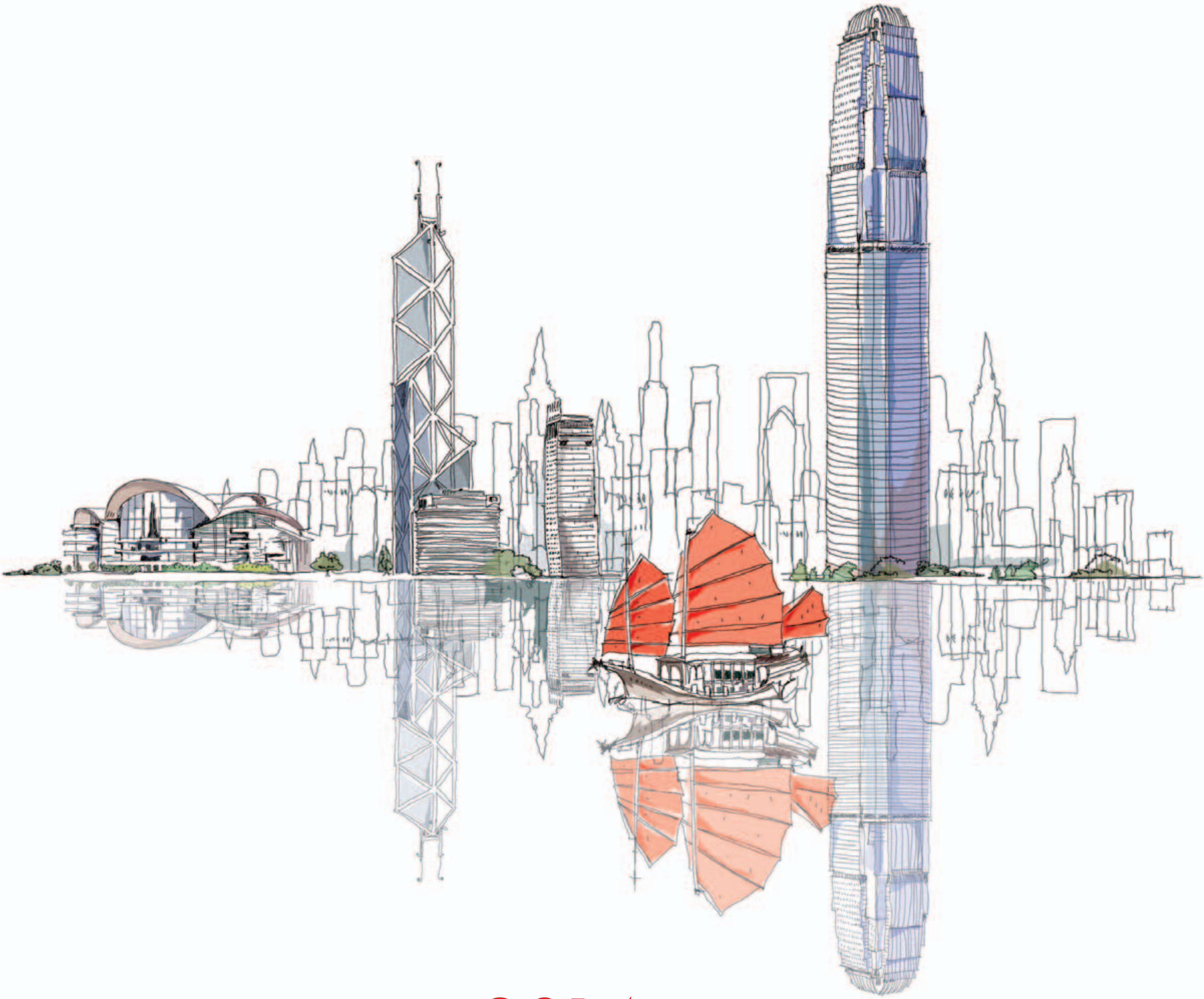
PUBLIC BANK (HONG KONG) LIMITED
大眾銀行（香港）有限公司

EXCELLENCE
IS OUR COMMITMENT



ANNUAL REPORT 2014

Corporate Information

Board of Directors

Non-Executive Chairman
Tan Sri Dato' Sri Dr. Teh Hong Piow (Chairman), also Founder and Chairman of Public Bank Berhad

Executive Directors
Tan Yoke Kong
Chong Yam Kiang

Non-Executive Directors
Tan Sri Dato' Sri Tay Ah Lek
Quah Poh Keat
Dato' Chang Kat Kiam

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

Company Secretary
Chan Sau Kuen

Registered Office and Head Office
2/F, Public Bank Centre
120 Des Voeux Road Central
Central, Hong Kong

Telephone	:	(852) 2541 9222
Facsimile	:	(852) 2541 0009
Website	:	www.publicbank.com.hk

Auditors
Ernst & Young
Certified Public Accountants

Legal Advisers
Charles Yeung Clement Lam Liu & Yip
Deacons
Siao, Wen and Leung
Stephenson Harwood

Principal Bankers
CIMB Bank Berhad
JP Morgan Chase Bank, N.A. Hong Kong Branch
Oversea-Chinese Banking Corporation Limited
Public Bank Berhad
Public Bank (L) Ltd
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

Public Bank (Hong Kong) Limited
Annual Report 2014

Contents

Public Bank (Hong Kong) Limited
Branch Network

Head Office and Branches

Head Office
2/F, Public Bank Centre, 120 Des Voeux Road Central
Tel : 2541 9222 Telex : 73085 CBHK HKHH
P.O. Box : G.P.O. Box 824 Fax : 2541 0009
Website : www.publicbank.com.hk

Hong Kong Island

1 **Main Branch**
G/F, Public Bank Centre
120 Des Voeux Road Central
Tel: 2541 9222 Fax: 2545 2866
Manager: So Wai Ming, Aubrey

2 **Western Branch**
Shop 2-3, G/F, Kam Kwan Building
163-173 Des Voeux Road West
Tel: 2858 2220 Fax: 2858 2638
Manager: Lau Ching Sang, Paul

3 **Wanchai Commercial Centre**
Unit A, 9/F, China Overseas Building
139 Hennessy Road
Tel: 2891 4171 Fax: 2834 1012

4 **North Point Branch**
Shop 2, G/F, Two Chinachem Exchange Square
338 King's Road
Tel: 2568 5141 Fax: 2567 0655
Manager: Ng Ngan Sum, Helen

5 **Shek Tong Tsui Branch**
Shop B1, G/F, Hong Kong Plaza
369-375 Des Voeux Road West
Tel: 2546 2055 Fax: 2559 7962
Manager: Ting Lai May, May

6 **Causeway Bay Branch**
G/F and M/F, 447 Hennessy Road
Tel: 2572 2363 Fax: 2572 3033
Manager: Leung Siu Ying, Fanny

7 **Central Branch**
Unit A, G/F, Wing On House
71 Des Voeux Road Central
Tel: 2147 2140 Fax: 2147 2244
Manager: Wong Hon Choi

8 **Aberdeen Branch**
Shop C, G/F, Kong Kai Building
184 Aberdeen Main Road
Tel: 2871 0928 Fax: 2871 0383
Manager: Wong Chun Hoi, Wilson

9 **Shau Kei Wan Branch**
Shop 2, G/F, Hong Tai Building
326-332 Shaukeiwan Road
Tel: 2884 3993 Fax: 2885 9283
Manager: Leung Yuen Fan, Maggie

10 **Quarry Bay Branch**
Shop 8, G/F, Oceanic Mansion
1010-1026 King's Road
Tel: 2856 3880 Fax: 2856 0833
Manager: Chui King Yan, Connie

Kowloon

11 **Yaumatei Branch**
G/F, Ek Nam Building
486 Nathan Road
Tel: 2381 1678 Fax: 2395 6398
Manager: Wong Mun Yu, Moon

12 **Kowloon City Branch**
G/F, 15 Nga Tsin Wai Road
Tel: 2382 0147 Fax: 2718 4281
Manager: Yan Yi Kam, Patrick

13 **Hung Hom Branch**
G/F, Hunghom Commercial Centre
37 Ma Tau Wai Road
Tel: 2363 9213 Fax: 2363 3195
Manager: Choi Kam Yee, Catalina

14 **Kwun Tong Branch**
Unit 2310, Tower 1, Millennium City 1
388 Kwun Tong Road
Tel: 2389 9119 Fax: 2389 9969
Manager: Lee Wai Kwan, Luceta

15 **Mongkok Branch**
G/F, JCG Building, 16 Mongkok Road
Tel: 2391 8393 Fax: 2391 6909
Manager: Chan Sau Ping, Rebecca

16 **San Po Kong Branch**
Shop B, G/F, Perfect Industrial Building
31 Tai Yau Street
Tel: 2326 8318 Fax: 2326 9180
Manager: Lau Keung Fai, David

17 **Cheung Sha Wan Branch**
Unit C2, G/F, 746 Cheung Sha Wan Road
Tel: 2786 9858 Fax: 2786 9506
Manager: Lai Siu Yee, Flora

18 **Wong Tai Sin Branch**
Shop 641-642, 6/F,
Tsz Wan Shan Shopping Centre
Tel: 2328 7332 Fax: 2328 7991
Manager: Kwong Hon Wun, Peter

19 **To Kwa Wan Branch**
Shop D, G/F, In House,
No. 307 To Kwa Wan Road
Tel: 2362 0238 Fax: 2362 3999
Manager: Kan Pak Ling, Lucia

20 **Prince Edward Branch**
G/F, 751 Nathan Road
Tel: 2397 3830 Fax: 2397 1006
Manager: Ngan Pui Shan, Sandy

21 **Tai Kok Tsui Branch**
Shop 2B, G/F, Tai Chuen Building
88-102 Ivy Street
Tel: 2392 1538 Fax: 2392 1101
Manager: So Tak Fai, Peter

22 **Tsim Sha Tsui Branch**
G/F, (Front Portion), 43 Mody Road
Tel: 2721 1218 Fax: 2721 1028
Manager: Yam Oi Yin, Pauline

New Territories

23 **Yuen Long Branch**
Shop 5, G/F, Fu Ho Building
3-7 Kau Yuk Road
Tel: 2479 4265 Fax: 2473 3934
Manager: Fong Fung Mei, Marisa

24 **Tsuen Wan Branch**
G/F, Victory Court, 185-187 Castle Peak Road
Tel: 2490 4191 Fax: 2490 4811
Manager: Wong Lam Fai, Philip

25 **Kwai Chung Branch**
Shop 88B of Trendy Place,
3/F, Kwai Chung Plaza
7-11 Kwai Foo Road
Tel: 2480 0002 Fax: 2401 2367
Manager: Chui Pui Ching, Anny

26 **Tai Po Branch**
Eastmost Shop on G/F,
Nos. 37/39 Po Yick Street
Tel: 2657 2861 Fax: 2657 7389
Manager: Tsang Wai Chor

27 **Fanling Branch**
G/F, 11 Wo Lung Street
Luen Wo Market
Tel: 2669 1559 Fax: 2669 8780
Manager: Wong Kai Ip, Jimmy

28 **Sheung Shui Branch**
G/F, 137 San Shing Avenue
Tel: 2639 0307 Fax: 3124 0091
Manager: Chong Mei Kuen, Joe

29 **Tuen Mun Branch**
Shop E, G/F, Kam Lai Building
Nos. 1-7 Kai Man Path
Tel: 2440 1298 Fax: 2440 1398
Manager: Lam Wong Kan, Kent

30 **Sai Kung Branch**
G/F, 16 Yi Chun Street
Tel: 2792 8588 Fax: 2791 0077
Manager: Kee Ka Wai

31 **Tseung Kwan O Branch**
G105-106, G/F, Metro City Plaza I
Tel: 2701 7688 Fax: 2701 7628
Manager: Lau Chi Kai, Thomas

32 **Shatin Branch**
Shop Nos. 4-6B,
Lucky Plaza Commercial Centre
Tel: 2601 6308 Fax: 2601 3686
Manager: Wong Lik Kin, Loppy

China

33 **Shenzhen Branch**
Shop No. 1, G/F, Carrianna Friendship Square
Renminnan Road, Shenzhen
People's Republic of China
Tel : (86-755) 2518 2822
Fax : (86-755) 2518 2327
Manager : Cheung Po Tung, David

34 **Futian Sub-branch**
1-3 Jinrun Mansion, No. 6019 Shennan Road
Futian District, Shenzhen
People's Republic of China
Tel : (86-755) 8280 0026
Fax : (86-755) 8280 0016
Manager : Ye Jun Liang, Leo

35 **Shekou Sub-branch**
Shop No.155-156, Coastal Building (East Block)
Hai De San Dao, Nanshan District, Shenzhen
People's Republic of China
Tel : (86-755) 8627 1388
Fax : (86-755) 8627 0699
Manager : Ying Wei Jun, Yoyo

Shenyang Representative Office
Unit 1801, 18/F, Sunwah Hi-tech Building
No. 262 Shifu Road, Shenhe District, Shenyang
Liaoning Province, People's Republic of China
Tel : (86-24) 2279 1368
Fax : (86-24) 2279 1369
Representative : Li Yu Jie

Shanghai Representative Office
Room G, 8/F, Majesty Building
138 Pu Dong Avenue, Shanghai
People's Republic of China
Tel : (86-21) 5887 8851
Fax : (86-21) 5887 9951
Representative : Chen Li Hang

Chairman's Statement

I have the pleasure to report the financial results of Public Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (the "Group") for the financial year ended 31 December 2014.

Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman

FINANCIAL HIGHLIGHTS

The Group recorded a profit after tax of HK$354.3 million for the year ended 31 December 2014, representing an increase of HK$2.2 million or 0.6% when compared to the previous year. Total loans and advances (including trade bills) of the Group increased by HK$1.37 billion or 5.1% to HK$28.46 billion as at 31 December 2014 from HK$27.09 billion as at 31 December 2013. Customer deposits of the Group increased by HK$1.57 billion or 5.2% to HK$31.66 billion as at 31 December 2014 from HK$30.09 billion as at 31 December 2013.

The Board of Directors (the "Board") had declared an interim dividend of HK$5.714 (2013: HK$5.989) per share and a special dividend of HK$2.025 (2013: HK$37.122) per share in June 2014. The Board recommended the payment of a final dividend of HK$6.074 (2013: HK$5.541) per share, making a total dividend of HK$13.813 (2013: HK$48.652) per share for 2014. The total dividend declared and recommended for the year 2014 amounted to HK$204.7 million.

For the year under review, the Group's interest income decreased by HK$15.9 million or 1.0% to HK$1.59 billion, whilst interest expense increased by HK$51.9 million or 16.7% to HK$362.6 million. Consequently, the Group's net interest income decreased by HK$67.8 million or 5.2% to HK$1.23 billion from HK$1.30 billion in the previous year. Impairment allowances for loans and advances decreased by HK$100.9 million or 31.3% to HK$221.1 million when compared to the previous year. Impaired loans to total loans ratio improved by 0.15% to 0.48% as at 31 December 2014 from 0.63% as at 31 December 2013. Total operating income of the Group decreased by HK$77.0 million or 5.1% to HK$1.43 billion for the year 2014 as a result of the decrease in net interest income in 2014. Total operating expenses (before changes in fair value of investment properties) of the Group increased by HK$23.5 million or 3.1% to HK$779.2 million, mainly due to increase in staff costs and branch premises related costs. Gains on fair value of investment properties increased by HK$0.8 million to HK$2.8 million as compared to the previous year.

BRANCH NETWORK

In 2014, the Bank, which has a branch network of 32 branches in Hong Kong and 3 branches in Shenzhen in the People's Republic of China ("PRC"), continued to focus on providing a broad range of commercial and retail banking services to its targeted market segments. Public Finance Limited ("Public Finance"), a subsidiary of the Bank, which has a branch network of 42 branches in Hong Kong, continued to focus on its core business in personal lending. The Group has a combined network of 77 branches as at the end of 2014. The Group also undertakes securities trading business through two stock broking subsidiaries.

Chairman's Statement

LOANS AND CUSTOMER DEPOSITS

During the year under review, the Group's total loans and advances increased by HK$1.37 billion or 5.1% to HK$28.46 billion as at 31 December 2014. the Bank recorded an increase in total loans and advances (including trade bills) of HK$935.4 million or 4.1% to HK$23.49 billion as at 31 December 2014. Public Finance recorded an increase in total loans and advances of HK$435.8 million or 9.6% to HK$4.97 billion as at 31 December 2014.

The Group's customer deposits for the year under review increased by HK$1.57 billion or 5.2% to HK$31.66 billion as at 31 December 2014 from HK$30.09 billion as at 31 December 2013. The Bank recorded an increase in customer deposits (excluding intra-group's deposits) of HK$1.31 billion or 5.0% to HK$27.51 billion as at 31 December 2014. Public Finance recorded an increase in customer deposits of HK$275.1 million or 6.8% to HK$4.33 billion as at 31 December 2014.

The Group will continue to focus on expanding its retail and commercial banking and consumer loans businesses through the extensive branch network of the Group, offering innovative products and pursuing aggressive marketing activities and competitive pricing strategies, whilst providing excellent customer service. The Group will continue to adopt prudent and flexible business strategies and adjust to market changes accordingly in the expansion of its customer base and businesses.

The Group will also continue to seek further synergies to improve its operating cost efficiency through cross selling of the Group's products and services, and streamline the support services of the combined branch network of the Bank and Public Finance.

ACKNOWLEDGEMENT

On behalf of the Board, I wish to take this opportunity to express our appreciation to the management and staff of the Group for their commitment, dedication and perseverance, and sincere gratitude to our customers for their invaluable patronage. I would also like to express our appreciation and gratitude to the Hong Kong Monetary Authority (the "HKMA"), the Securities and Futures Commission and other relevant authorities for their invaluable advice, guidance and support.

Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman

Our Corporate Family

Corporate Events & Recreational Activities

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1. Mr. Tan delivering his keynote address at the First Sales Forum of the AIA-Public Bank Bancassurance Partnership held at the AIA Tower in Central on 20 March 2014.

2. The top sales performers of the AIA-Public Bank Bancassurance products received their awards from Senior Management of Public Bank (Hong Kong) and AIA (Hong Kong).

3. Relocation of Yaumatei Branch of Public Bank (Hong Kong) to a new premises with new layout and interior design on 3 November 2014.

4. A group photo of Branch Managers and Heads of Departments with Senior Management at the Public Bank (Hong Kong) Business Forum 2014 held on 2 March 2014.

5. Members of the Organising Committee, staff performers and helpers of the Annual Dinner 2014 having an enjoyable evening with Mr. Tan during the Appreciation Dinner 2014.


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6. The staff performers posing with the Organising Committee at the Group's Annual Dinner 2014.

7. Classical showbiz song and dance performed by the staff at the Group's Annual Dinner 2014.

8. Vibrant drum performance by a team of male staff at the Group's Annual Dinner 2014.

9. A team photo with all the sales & marketing staff of Pubic Bank (Hong Kong) branches and business units who participated at the Sales Leadership and Teambuilding Program 2014 held at Po Leung Kuk Jockey Club Tai Tong Holiday Camp in Yuen Long.

10. Staff taking up the high wall challenge during the Sales Leadership and Teambuilding Program 2014 of Public Bank (Hong Kong).

11. Debriefing by the facilitator on team building exercises with the participants of sales & marketing staff at Po Leung Kuk Jockey Club Tai Tong Holiday Camp, Yuen Long.

12. Inter-House "3x3 Basketball Competition 2014" organised by the Public Bank Group Sports Club at a sports venue in Mongkok on 10 January 2014.

13. A group photo before the commencement of the Group's first "3x3 Basketball Competition 2014" organised by the Public Bank Group Sports Club.

Our Corporate Family
Marketing & Promotions

大眾銀行（香港）
PUBLIC BANK (HONG KONG)
港元新資金
「靈活定期存款」
優惠年利率
高達1.80% p.a.
第1至3個月
1.00% p.a.
第4個月
高達
1.80% p.a.
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0.18%
34%
243
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日息低至HK$0.6*
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95%
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大眾財務有限公司
PUBLIC FINANCE LIMITED

Report of the Directors

The Directors present their report and the audited financial statements of the Bank and of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activities of the Group have not changed during the year and consisted of the provision of a comprehensive range of banking, financial and related services.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2014 and the state of affairs of the Bank and of the Group as at that date are set out in the financial statements on pages 14 to 110.

Interim dividend of HK$5.714 (2013: HK$5.989) and special dividend of HK$2.025 (2013: HK$37.122) per ordinary share were declared and paid during the year. The Directors recommend the payment of a final dividend of HK$6.074 (2013: HK$5.541) per ordinary share for the year.

PROPERTY AND EQUIPMENT, LAND HELD UNDER FINANCE LEASES AND INVESTMENT PROPERTIES

Details of movements in the property and equipment, land held under finance leases and investment properties of the Bank and of the Group during the year are set out in notes 25, 26 and 27 to the financial statements, respectively.

SHARE CAPITAL

Details of movement in the Bank's share capital during the year are set out in note 31 to the financial statements.

RESERVES

Details of movements in the reserves of the Bank and of the Group during the year are set out in note 32 to the financial statements and the consolidated statement of changes in equity.

DIRECTORS

The Directors of the Bank during the year and up to the date of this report were as follows:

Non-Executive Directors:
Tan Sri Dato' Sri Dr. Teh Hong Piow, Chairman
Tan Sri Dato' Sri Tay Ah Lek
Quah Poh Keat
Dato' Chang Kat Kiam

Independent Non-Executive Directors:
Tan Sri Datuk Seri Utama Thong Yaw Hong, Co-Chairman
Lee Chin Guan
Tang Wing Chew (appointed on 1 March 2014)
Lai Wan (appointed on 1 March 2014)

Executive Directors:
Tan Yoke Kong
Chong Yam Kiang

In accordance with Articles 109, 110 and 115 of the Articles of Association of the Bank, Tan Sri Datuk Seri Utama Thong Yaw Hong, Mr. Tan Yoke Kong, Mr. Chong Yam Kiang, Mr. Tang Wing Chew and Mr. Lai Wan shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting ("AGM").

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the share option scheme (the "Scheme") of Public Financial Holdings Limited ("PFHL"), the Bank's immediate holding company, certain Directors of the Bank have been granted options to subscribe for ordinary shares of PFHL.

During the year, the interests of the Directors in any rights to subscribe for ordinary shares in PFHL were as follows:

	Number of ordinary shares attached to the share options					
Name of Directors	At the beginning of the year	Granted during the year	Exercised during the year	At the end of the year	Exercise price HK$	Exercise period
Tan Yoke Kong	1,318,000	–	–	1,318,000	6.35	10.6.2005 to 9.6.2015
Tan Sri Dato' Sri Tay Ah Lek	1,230,000	–	–	1,230,000	6.35	10.6.2005 to 9.6.2015
Dato' Chang Kat Kiam	1,380,000	–	–	1,380,000	6.35	10.6.2005 to 9.6.2015
Lee Chin Guan	350,000	–	–	350,000	6.35	10.6.2005 to 9.6.2015

Note: The options to subscribe for ordinary shares of HK$0.10 each in PFHL under the Scheme of PFHL are only exercisable during certain periods as notified by the Board of Directors of PFHL or the Share Option Committee of PFHL to each grantee which it may in its absolute discretion determine from time to time before the expiry of the share options on 9 June 2015.

Save as disclosed above, at no time during the year was the Bank or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Bank's Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or in any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in notes 33 and 36 to the financial statements, no Director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Bank to which the Bank, its holding companies, subsidiaries or fellow subsidiaries was a party at the end of the year or at any time during the year.

Report of the Directors

COMPLIANCE WITH SUPERVISORY POLICY MANUAL

The Bank has complied with the guidelines in the Supervisory Policy Manual ("SPM") issued by the HKMA as follows: (i) Module CA-D-1 "Guideline on the Application of the Banking (Disclosure) Rules, (ii) Module CG-1 "Corporate Governance of Locally Incorporated Authorised Institutions"; and (iii) Module CG-5 "Guideline on a Sound Remuneration System".

The Bank has also complied with the capital requirements related to capital base and capital adequacy ratio stipulated by the HKMA.

DONATIONS

During the year, the Group did not make any charitable donation (2013: HK$84,600).

AUDITORS

Ernst & Young retire and a resolution for their re-appointment as auditors of the Bank will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

Tan Sri Dato' Sri Tay Ah Lek
Director

Tan Yoke Kong
Director

Hong Kong
15 January 2015

Independent Auditors' Report

To the shareholders of Public Bank (Hong Kong) Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Public Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 14 to 110, which comprise the consolidated and the Bank's statement of financial position as at 31 December 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
15 January 2015

Consolidated Income Statement

For the year ended 31 December 2014

	Notes	**2014 HK$'000**	2013 HK$'000
Interest income	8	**1,594,823**	1,610,737
Interest expense	8	**(362,600)**	(310,701)
NET INTEREST INCOME		**1,232,223**	1,300,036
Other operating income	9	**195,780**	204,932
OPERATING INCOME		**1,428,003**	1,504,968
Operating expenses	10	**(779,188)**	(755,640)
Changes in fair value of investment properties		**2,800**	1,979
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**651,615**	751,307
Impairment allowances for loans and advances and receivables	11	**(221,106)**	(322,031)
OPERATING PROFIT AFTER IMPAIRMENT ALLOWANCES		**430,509**	429,276
Share of profit of a joint venture	22	**180**	–
PROFIT BEFORE TAX		**430,689**	429,276
Tax	13	**(76,403)**	(77,207)
PROFIT FOR THE YEAR		**354,286**	352,069
ATTRIBUTABLE TO:			
Owners of the Bank	14	**354,286**	352,069

Details of dividends paid/payable are disclosed in note 15 to the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
PROFIT FOR THE YEAR	**354,286**	352,069
OTHER COMPREHENSIVE INCOME FOR THE YEAR		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange (loss)/gain on translating foreign operations, net of tax	**(16,579)**	13,661
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**337,707**	365,730
ATTRIBUTABLE TO:		
Owners of the Bank	**337,707**	365,730

Consolidated Statement of Financial Position

31 December 2014

	Notes	Group 2014 HK$'000	Group 2013 HK$'000	Bank 2014 HK$'000	Bank 2013 HK$'000
ASSETS					
Cash and short term placements	16	**3,981,269**	3,960,412	**3,799,192**	3,821,287
Placements with banks and financial institutions maturing after one month but not more than twelve months	17	**927,219**	1,195,991	**927,219**	1,195,991
Derivative financial instruments		**2,170**	771	**2,170**	771
Loans and advances and receivables	18	**28,433,510**	27,027,116	**23,492,168**	22,537,673
Available-for-sale financial assets	19	**6,804**	6,804	**6,804**	6,804
Held-to-maturity investments	20	**4,951,708**	4,780,905	**4,941,709**	4,770,907
Investments in subsidiaries	21	**–**	–	**1,755,997**	1,755,997
Interest in a joint venture	22	**1,693**	1,513	**1,500**	1,500
Deferred tax assets	30	**25,899**	30,542	**13,607**	15,541
Tax recoverable		**69**	8,372	**–**	8,042
Intangible assets	24	**718**	718	**–**	–
Property and equipment	25	**67,409**	65,264	**54,345**	51,344
Land held under finance leases	26	**104,621**	101,472	**97,465**	100,188
Investment properties	27	**61,263**	65,543	**31,435**	29,728
Goodwill	28	**242,342**	242,342	**–**	–
Other assets	23	**164,176**	120,364	**133,178**	112,346
TOTAL ASSETS		**38,970,870**	37,608,129	**35,256,789**	34,408,119

Consolidated Statement of Financial Position

31 December 2014

	Notes	Group 2014 HK$'000	Group 2013 HK$'000	Bank 2014 HK$'000	Bank 2013 HK$'000
EQUITY AND LIABILITIES					
LIABILITIES					
Deposits and balances of banks and other financial institutions at amortised cost		**515,065**	483,401	**1,089,508**	1,256,280
Derivative financial instruments		**5,994**	610	**5,994**	610
Customer deposits at amortised cost	29	**31,655,486**	30,090,403	**27,554,915**	26,250,420
Certificates of deposit issued at amortised cost		**1,363,494**	1,794,492	**1,363,494**	1,794,492
Current tax payable		**16,444**	22,285	**5,914**	12,895
Deferred tax liabilities	30	**7,024**	6,907	**4,748**	4,232
Other liabilities	23	**373,559**	317,178	**281,130**	260,259
TOTAL LIABILITIES		**33,937,066**	32,715,276	**30,305,703**	29,579,188
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK					
Share capital: nominal value	31	**–**	1,481,600	**–**	1,481,600
Other statutory capital reserves	32	**–**	1,372,445	**–**	1,372,445
Share capital and other statutory capital reserves		**2,854,045**	2,854,045	**2,854,045**	2,854,045
Other reserves	32	**2,179,759**	2,038,808	**2,097,041**	1,974,886
TOTAL EQUITY		**5,033,804**	4,892,853	**4,951,086**	4,828,931
TOTAL EQUITY AND LIABILITIES		**38,970,870**	37,608,129	**35,256,789**	34,408,119

Tan Sri Dato' Sri Tay Ah Lek
Director

Tan Yoke Kong
Director

Chong Yam Kiang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Note	**2014 HK$'000**	2013 HK$'000
TOTAL EQUITY			
Balance at the beginning of the year		**4,892,853**	5,243,416
Profit for the year		**354,286**	352,069
Other comprehensive income		**(16,579)**	13,661
Total comprehensive income for the year		**337,707**	365,730
Dividends paid in respect of previous year	15(a)	**(82,095)**	(77,560)
Dividends paid in respect of current year	15(a)	**(114,661)**	(638,733)
Balance at the end of the year		**5,033,804**	4,892,853

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**430,689**	429,276
Adjustments for:			
Dividend income from listed investments	9	**(52)**	(39)
Dividend income from unlisted investments	9	**(800)**	(900)
Depreciation of property and equipment and land held under finance leases	10	**21,616**	23,397
Increase in fair value of investment properties	27	**(2,800)**	(1,979)
Share of profit of a joint venture	22	**(180)**	–
Decrease in impairment allowances for loans and advances and receivables		**(35,904)**	(12,280)
Net losses on disposal of property and equipment		**130**	49
Exchange differences		**(16,049)**	14,452
Profits tax paid		**(69,181)**	(64,534)
Operating profit before changes in operating assets and liabilities		**327,469**	387,442
Increase in operating assets:			
(Increase)/decrease in placements with banks and financial institutions		**(318,493)**	34,730
Increase in derivative financial instruments		**(1,399)**	(454)
Increase in loans and advances and receivables		**(1,371,020)**	(71,506)
Increase in held-to-maturity investments		**(316,354)**	(724,588)
(Increase)/decrease in other assets		**(43,812)**	18,332
		(2,051,078)	(743,486)
Increase in operating liabilities:			
Increase/(decrease) in deposits and balances of banks and other financial institutions at amortised cost		**31,664**	(54,895)
Increase in customer deposits at amortised cost		**1,565,083**	677,411
(Decrease)/increase in certificates of deposit issued at amortised cost		**(430,998)**	1,144,659
Increase in derivative financial instruments		**5,384**	475
Increase/(decrease) in other liabilities		**56,381**	(11,887)
		1,227,514	1,755,763
Net cash (outflow)/inflow from operating activities		**(496,095)**	1,399,719

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	**2014 HK$'000**	2013 HK$'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES		**(496,095)**	1,399,719
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	25	**(19,926)**	(19,637)
Exchange differences		**(34)**	36
Sales proceeds from disposal of property and equipment		**–**	1
Dividends received from listed investments		**52**	39
Dividends received from unlisted investments		**800**	900
Net cash outflow from investing activities		**(19,108)**	(18,661)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on shares		**(196,756)**	(716,293)
Repayment of unsecured bank loans		**–**	(797,061)
Net cash outflow from financing activities		**(196,756)**	(1,513,354)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(711,959)**	(132,296)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**5,327,141**	5,459,437
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**4,615,182**	5,327,141
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand	38	**803,507**	1,226,694
Money at call and short notice with an original maturity within three months		**3,177,762**	2,733,718
Placements with banks and financial institutions with an original maturity within three months		**164,049**	751,314
Held-to-maturity investments with an original maturity within three months		**469,864**	615,415
		4,615,182	5,327,141

Notes to Financial Statements

1. CORPORATE INFORMATION

The Bank is a limited liability company and its registered office is located at 2/F, Public Bank Centre, 120 Des Voeux Road Central, Central, Hong Kong. During the year, the Group's principal activities were the provision of a comprehensive range of commercial and retail banking, financial and related services.

Details of the principal activities of the Bank's subsidiaries are set out in note 21 to the financial statements.

The Bank is a wholly-owned subsidiary of PFHL. In the opinion of the Directors, the ultimate holding company of the Bank is Public Bank Berhad ("Public Bank"), which is incorporated in Malaysia.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (a collective term which includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int")) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622), which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The consolidated financial statements also comply with the disclosure requirements of the Guideline on the Application of the Banking (Disclosure) Rules under the SPM issued by the HKMA.

The consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, available-for-sale financial assets, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

3. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Bank and its subsidiaries for the year ended 31 December 2014. The 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.

Notes to Financial Statements

3. BASIS OF CONSOLIDATION (Continued)

The subsidiaries consolidated for accounting purposes are as follows:

Name	31 December 2014 Total assets HK$	31 December 2014 Total equity HK$	31 December 2013 Total assets HK$	31 December 2013 Total equity HK$	Principal activities
Public Financial Securities Limited	**112,606,188**	**47,893,643**	87,462,405	47,892,448	Securities brokerage
Public Bank (Nominees) Limited	**100,000**	**100,000**	100,000	100,000	Provision of nominee services
Public Investments Limited	**200**	**200**	200	200	Dormant
Public Realty Limited	**99,208**	**99,208**	99,208	99,208	Dormant
Public Credit Limited	**2,471,984**	**2,471,984**	2,460,504	2,460,504	Dormant
Public Futures Limited	**1**	**1**	1	1	Dormant
Public Pacific Securities Limited	**4,854,553**	**3,480,362**	4,914,110	3,448,914	Dormant
Public Finance Limited*	**5,831,691,841**	**1,444,171,059**	5,536,194,043	1,428,148,636	Deposit-taking and financing
Public Financial Limited	**10,101,371**	**10,101,371**	10,101,371	10,101,371	Investment holding
Public Securities Limited	**174,222,910**	**141,264,776**	158,339,552	139,171,946	Securities brokerage
Public Securities (Nominees) Limited	**1,091,339**	**1,077,258**	1,043,041	1,015,902	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.

4. BASIS OF CAPITAL DISCLOSURES

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

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

The computation of the consolidated capital adequacy ratio of the Group is based on the ratio of the aggregate of risk weighted exposures to the aggregate of capital bases of the 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.

4. BASIS OF CAPITAL DISCLOSURES (Continued)

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.

5. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The HKICPA has issued a number of new and revised HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2014. The Group has adopted the following revised HKFRSs issued up to 31 December 2014 which are pertinent to its operations and relevant to these financial statements.

• Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
• Amendments to HKAS 32	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
• Amendments to HKAS 36	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
• Amendments to HKAS 39	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
• HK(IFRIC)-Int 21	*Levies*
• Amendment to HKFRS 2 included in Annual Improvements 2010-2012 Cycle	*Definition of Vesting Condition*[1]
• Amendment to HKFRS 3 included in Annual Improvements 2010-2012 Cycle	*Accounting for Contingent Consideration in a Business Combination*[1]
• Amendment to HKFRS 13 included in Annual Improvements 2010-2012 Cycle	*Short-term Receivables and Payables*
• Amendment to HKFRS 1 included in Annual Improvements 2011-2013 Cycle	*Meaning of Effective HKFRSs*

1 Effective from 1 July 2014

Except for the amendment to HKFRS 1 which is only relevant to an entity's first HKFRS financial statements, the nature and the impact of each amendment and interpretation is described below:

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 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 to the Group.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

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 to 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 to the Group.

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

The HKFRS 2 Amendment clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including (i) a performance condition must contain a service condition; (ii) a performance target must be met while the counterparty is rendering service; (iii) a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; (iv) a performance condition may be a market or non-market condition; and (v) if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendment has had no impact to the Group.

The HKFRS 3 Amendment clarifies that contingent consideration arrangements arising from a business combination that are not classified as equity should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of HKFRS 9 or HKAS 39. The amendment has had no impact to the Group.

The HKFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at any invoice amounts when the effect of discounting is immaterial. The amendment has had no impact to the Group.

5. ACCOUNTING POLICIES (Continued)

Impact of new and revised HKFRSs and new disclosure requirements under the Hong Kong Companies Ordinance not yet adopted

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

• HKFRS 9	*Financial Instruments*[4]
• Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
• Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
• HKFRS 14	*Regulatory Deferral Accounts*[5]
• HKFRS 15	*Revenue from Contracts with Customers*[3]
• Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
• Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[2]
• Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*[1]
• Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
• Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs[1]
• Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs[1]
• Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[2]

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 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the annual report requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) will come into operation as from the Bank’s first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the aforesaid Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far, it has been concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group’s financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor’s profit or loss only to the extent of the unrelated investor’s interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Impact of new and revised HKFRSs and new disclosure requirements under the Hong Kong Companies Ordinance not yet adopted (Continued)

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structure approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The Annual Improvements to HKFRSs 2010-2012 Cycle issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described under the heading "Changes in accounting policies and disclosures", the Group expects to adopt the amendments from 1 January 2015. None of the amendments is expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

HKFRS 8 *Operating Segments:* Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

(1) Foreign currency translation

The consolidated financial statements are presented in Hong Kong dollars, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(1) Foreign currency translation (Continued)

(i) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in "Other operating income" or "Other operating expenses" in the consolidated income statement with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity which is taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in OCI or profit or loss is also recognised in OCI or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries and overseas branches and offices are translated into the Group's presentation currency at the rates of exchange ruling at the end of the reporting period, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement as part of gain or loss on disposal.

(2) Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset. Derivatives are recognised on the trade date basis.

(ii) Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments are acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(iii) Derivative financial instruments

Derivatives include interest rate swaps and futures, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held for trading are included in "Net gain or loss on derivative financial instruments".

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host contract are carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated income statement.

(iv) Financial assets designated at fair value through profit or loss

Financial assets classified in this category are held for trading or are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets designated at fair value through profit or loss". Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other operating income" when the right to the payment has been established.

(v) Held-to-maturity investments

Held-to-maturity investments measured at amortised cost are those which carry fixed or determinable payments and have fixed maturity and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in "Interest income" in the consolidated income statement. The losses arising from impairment of such investments are recognised in the consolidated income statement as "Impairment allowances for held-to-maturity investments".

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(vi) Cash and short term placements, placements with banks and financial institutions, and loans and advances and receivables

Cash and short term placements, placements with banks and financial institutions, and loans and advances and receivables are categorised as loans and advances. They are carried at amortised cost and are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short term resale. After initial measurement, amounts due from banks and loans and advances and receivables are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in "Interest income" in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Impairment allowances for loans and advances and receivables".

(vii) Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity investments or loans and advances. They include equity instruments, investments in mutual funds and money markets and other debt instruments.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the "Available-for-sale financial asset revaluation reserve".

When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement in "Other operating income" or "Other operating expenses". Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in, first-out basis. Interest earned whilst holding available-for-sale financial assets is reported as interest income using the effective interest rate method. Dividends earned whilst holding available-for-sale financial assets are recognised in the consolidated income statement as "Other operating income" when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the consolidated income statement in "Impairment allowances for available-for-sale financial assets" and removed from the "Available-for-sale financial asset revaluation reserve".

(viii) Certificates of deposit

Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as liabilities under "Certificates of deposit issued at amortised cost" where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number or own equity shares. The components of compound financial instruments, that contain both liability and equity elements, are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(ix) Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process using effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated income statement.

(3) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements in "Other liabilities" at fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement in "Net fees and commission income" under "Other operating income" on a straight-line basis over the life of the guarantee.

(4) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(4) Derecognition of financial assets and financial liabilities (Continued)

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(5) Fair value measurement

The Group measures its investment properties and derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that will be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that will use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(6) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset has/have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a borrower or a group of borrowers is/are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with default.

(i) Placements with banks and financial institutions, and loans and advances and receivables

For amounts due from banks and loans and advances to customers carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and the Group collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral had been realised or had been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. If a future write-off is later recovered, the recovery is credited to "Impairment losses and allowances" in the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit risk-based system that considers credit risk characteristics such as asset type, industry, collateral type, economic factors and other relevant factors.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(6) Impairment of financial assets (Continued)

(i) Placements with banks and financial institutions, and loans and advances and receivables (Continued)

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Held-to-maturity investments

For held-to-maturity investments, the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to "Impairment allowances for held-to-maturity investments", to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(iii) Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is removed from OCI and recognised in the consolidated income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is removed from OCI and recognised in the consolidated income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the consolidated income statement. Increases in their fair value after impairment are recognised directly in OCI.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(6) Impairment of financial assets (Continued)

(iii) Available-for-sale financial assets (Continued)

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement.

(7) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item other than legal titles, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and classified as "Property and equipment" but represented on a separate line with the corresponding liability to the lessor included in "Other liabilities". Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in "Interest expense" in the consolidated income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are not recognised in the consolidated statement of financial position. Any rentals payable are accounted for on a straight-line basis over the lease term and are included in "Operating expenses".

Land held under finance leases are stated at cost less accumulated depreciation and any impairment, and are depreciated over the remaining lease terms on a straight-line basis to the consolidated income statement.

Medium term leases are leases with remaining lease period of more than 10 years but not more than 50 years. Long term leases are leases with remaining lease period of more than 50 years.

(ii) Group as a lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. The Group leases out all of its investment properties as operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and are recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(7) Leases (Continued)

(ii) Group as a lessor (Continued)

The amounts due from the lessees under finance leases are recorded in the consolidated statement of financial position as loans and advances to customers. The amount comprises the gross investment in the finance leases less gross earnings allocated to future accounting periods. The total gross earnings under finance leases are allocated to the accounting periods over the duration of the underlying agreements so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

(8) Recognition of revenue and expenditure

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as available-for-sale financial assets, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest income or expense.

Once the value of a financial asset or a group of similar financial assets had been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(a) Fee income earned from services that are provided over a certain period of time
Fees earned from the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(b) Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

(iii) Dividend income

Dividend income is recognised when the Group's right to receive the payment is established.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(8) Recognition of revenue and expenditure (Continued)

(iv) Net trading income

Net trading income arising from trading activities includes all gains and losses from changes in fair value for financial assets and financial liabilities held for trading. Gains and losses on foreign exchange trading and other transactions are also reported as "Net trading income" except for those gains and losses on translation of foreign currencies recognised in the translation reserve.

(v) Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the consolidated income statement as "Other operating income".

(9) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, amounts due from banks on demand or with original maturity within three months and held-to-maturity investments with original maturity within three months.

(10) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or a liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in consolidated income statement as gain on bargain purchase.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(10) Business combinations and goodwill (Continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (the "CGU(s)"), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the CGU (group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (group of CGUs) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

(11) Subsidiaries

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

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

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

(b) rights arising from other contractual arrangements; and

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

The results of subsidiaries are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

(12) Joint venture companies

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment loss.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(12) Joint venture companies (Continued)

The Group's share of the post-acquisition results and OCI of joint ventures is included in the consolidated income statement and consolidated comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any change, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of joint ventures are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in joint ventures are treated as non-current assets and are stated at cost less any impairment loss.

(13) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(14) Property and equipment, and depreciation

The property and equipment is stated at cost, except for certain buildings transferred from investment properties, which are stated at deemed cost at the date of transfer, less accumulated depreciation and impairment. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The estimated useful lives are as follows:

• Buildings	Over the shorter of the remaining lease terms and 50 years
• Leasehold improvements:	
Own leasehold buildings	3 to 5 years
Others	Over the shorter of the remaining lease terms and 7 years
• Furniture, fixtures, equipment and motor vehicles	3 to 10 years
• Land held under finance leases	Over the lease term

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Land held under finance leases are stated at cost less accumulated depreciation and any impairment, and are depreciated over the remaining lease terms on a straight-line basis to the consolidated income statement.

Medium term leases are leases with remaining lease periods of more than 10 years to 50 years. Long term leases are leases with remaining lease periods of more than 50 years.

(15) Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(15) Investment properties (Continued)

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property and equipment, and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property and equipment, and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the consolidated income statement.

(16) Intangible assets (other than goodwill)

Intangible assets, representing eligibility rights to trade on or through Hong Kong Exchanges and Clearing Limited, are stated at cost less impairment. The useful lives are assessed to be indefinite and they are reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis. The carrying amount of intangible assets is subject to an annual impairment test, and impairment, if any, is charged to the consolidated income statement.

(17) Impairment of non-financial assets

The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group will make an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) the Group considered impaired is written down to its recoverable amount.

For assets excluding goodwill and deferred tax assets, an assessment is made at each reporting date as to determine whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period it arises.

(18) Repossessed assets and valuation of collateral

Collateral assets for loans and advances and receivables are repossessed by the Group when the borrowers are unable to service their repayments, and would be realised in satisfaction of outstanding debts. Advances with repossessed collateral assets will continue to be accounted for as customer advances, except for those where the Group has taken the legal title and control of the repossessed collateral assets, in which cases the repossessed assets are shown under other accounts at the predetermined value with a corresponding reduction in the related advances. Individual impairment allowance is made on the shortfall between the expected net realisable value of the repossessed assets and the outstanding advances.

Collateral assets (including repossessed assets and assets not yet repossessed) are recognised at the lower of the carrying amount of the related loans and advances and receivables and fair value less costs to sell.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(19) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Operating expenses" in the consolidated income statement.

(20) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credit and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credit and unused tax losses can be utilised except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Notes to Financial Statements

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(20) Income tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(21) Employee benefits

(a) *Retirement benefit schemes*

The Group participates in two defined contribution retirement benefit schemes for those employees who are eligible to participate. The assets of the schemes are held separately from those of the Group in independently administered funds.

Contribution for Mandatory Provident Fund Scheme is made based on a percentage of the participating employees' relevant monthly income from the Group while contribution for Occupational Retirement Scheme Ordinance Scheme is made based on the participating employees' basic salary, and the contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the respective schemes. When an employee leaves the Group prior to his/her interest in the Group's employer non-mandatory contributions vesting with the employee, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. The Group's mandatory contributions vest fully with the employee.

(b) *Share option scheme*

PFHL operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the PFHL Group's operations. Employees (including Directors) of the Group receive remuneration in the form of share-based payments whereby employees render services as consideration for equity-settled transactions.

For share options granted under the Scheme, the fair value of the employee's services rendered in exchange for the grant of the options is recognised as an expense and credited to an employee share-based compensation reserve under equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at the grant date. At the end of each reporting period, the PFHL Group revises its estimates of the number of options that is expected to become exercisable. It recognises the impact of the revision of the original estimates, if any, in the consolidated income statement, and a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified if the original terms of the award are met. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

5. ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies (Continued)

(21) Employee benefits (Continued)

(c) Employee leave entitlements

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated as at the end of the reporting period.

(22) Dividends

Final dividends proposed by the Directors will remain in retained profits within reserves in the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

Interim dividends and special dividends are simultaneously proposed and declared by the Directors. Consequently, interim dividends and special dividends are recognised directly as a liability when they are proposed and declared.

6. SIGNIFICANT ACCOUNTING ESTIMATES

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment allowances on loans and advances and receivables, and held-to-maturity investments

The Group reviews its portfolios of loans and advances and receivables and held-to-maturity investments to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the discounted estimated future cash flows from a portfolio of loans and advances and receivables, and held-to-maturity investments before the decrease can be identified with an individual loan or held-to-maturity investment in those portfolios. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

For loans and advances and receivables for which no individual impairment is observed, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the loan portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the CGUs to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2014 and 2013 was HK$242,342,000. Further details are set out in note 28 to the financial statements.

Notes to Financial Statements

7. 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.

The following table represents revenue and profit information for operating segments for the years ended 31 December 2014 and 2013.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Segment revenue								
External:								
Net interest income	**1,232,189**	1,299,966	**34**	70	**-**	–	**1,232,223**	1,300,036
Other operating income:								
Fees and commission income	**142,798**	137,467	**31,278**	48,116	**-**	–	**174,076**	185,583
Others	**13,967**	11,807	**(45)**	(6)	**7,782**	7,548	**21,704**	19,349
Operating income	**1,388,954**	1,449,240	**31,267**	48,180	**7,782**	7,548	**1,428,003**	1,504,968
Operating profit after impairment allowance	**416,873**	404,919	**4,976**	16,690	**8,660**	7,667	**430,509**	429,276
Share of profit of a joint venture							**180**	–
Profit before tax							**430,689**	429,276
Tax							**(76,403)**	(77,207)
Profit for the year							**354,286**	352,069
Other segment information								
Depreciation of property and equipment and land held under finance leases	**(21,616)**	(23,397)	**-**	–	**-**	–	**(21,616)**	(23,397)
Change in fair value of investment properties	**-**	–	**-**	–	**2,800**	1,979	**2,800**	1,979
Impairment allowances for loans and advances and receivables	**(221,106)**	(322,031)	**-**	–	**-**	–	**(221,106)**	(322,031)
Net losses on disposal of property and equipment	**(130)**	(49)	**-**	–	**-**	–	**(130)**	(49)

7. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

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

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets other than intangible assets and goodwill	**38,313,391**	36,984,870	**325,495**	274,229	**61,263**	65,543	**38,700,149**	37,324,642
Intangible assets	**–**	–	**718**	718	**–**	–	**718**	718
Goodwill	**242,342**	242,342	**–**	–	**–**	–	**242,342**	242,342
Segment assets	**38,555,733**	37,227,212	**326,213**	274,947	**61,263**	65,543	**38,943,209**	37,567,702
Unallocated assets:								
Interest in a joint venture							**1,693**	1,513
Deferred tax assets and tax recoverable							**25,968**	38,914
Total assets							**38,970,870**	37,608,129
Segment liabilities	**33,774,584**	32,596,432	**135,582**	86,457	**3,432**	3,195	**33,913,598**	32,686,084
Unallocated liabilities:								
Deferred tax liabilities and tax payable							**23,468**	29,192
Total liabilities							**33,937,066**	32,715,276
Other segment information								
Additions to non-current assets – capital expenditure	**19,926**	19,637	**–**	–	**–**	–	**19,926**	19,637

Notes to Financial Statements

7. 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 years ended 31 December 2014 and 2013.

	2014	2013
	HK$'000	HK$'000
Segment revenue from external customers:		
Hong Kong	**1,349,213**	1,426,989
Mainland China	**78,790**	77,979
	1,428,003	1,504,968

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 31 December 2014 and 2013.

	2014	2013
	HK$'000	HK$'000
Non-current assets:		
Hong Kong	**459,112**	459,438
Mainland China	**18,934**	17,414
	478,046	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, including a group of entities which are known to be under common control with that customer, amounts to less than 10% of the Group's total operating income or revenue.

8. INTEREST INCOME AND EXPENSE

	2014 HK$'000	2013 HK$'000
Interest income from:		
Loans and advances and receivables	**1,451,287**	1,501,947
Short term placements and placements with banks	**79,595**	59,892
Held-to-maturity investments	**63,941**	48,898
	1,594,823	1,610,737
Interest expense on:		
Deposits from banks and financial institutions	**6,019**	3,335
Deposits from customers	**356,489**	296,535
Bank loans	**92**	10,831
	362,600	310,701

Interest income and interest expense for the year ended 31 December 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$1,594,823,000 and HK$362,600,000 (2013: HK$1,610,737,000 and HK$310,701,000) respectively. Interest income on the impaired loans and advances for the year ended 31 December 2014 amounted to HK$4,783,000 (2013: HK$7,348,000).

9. OTHER OPERATING INCOME

	2014 HK$'000	2013 HK$'000
Fees and commission income:		
Retail and commercial banking	**144,310**	139,106
Wealth management services, stockbroking and securities management	**31,278**	48,116
	175,588	187,222
Less: Fees and commission expenses	**(1,512)**	(1,639)
Net fees and commission income	**174,076**	185,583
Gross rental income	**7,828**	7,584
Less: Direct operating expenses	**(46)**	(37)
Net rental income	**7,782**	7,547
Gains less losses arising from dealing in foreign currencies	**15,337**	8,798
Net (losses)/gains on derivative financial instruments	**(3,824)**	161
	11,513	8,959
Dividend income from unlisted investments	**800**	900
Dividend income from listed investments	**52**	39
Net losses on disposal of property and equipment	**(130)**	(49)
Others	**1,687**	1,953
	195,780	204,932

Notes to Financial Statements

9. OTHER OPERATING INCOME (Continued)

Direct operating expenses included repair 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 years ended 31 December 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.

10. OPERATING EXPENSES

	Notes	**2014 HK$'000**	2013 HK$'000
Staff costs:			
Salaries and other staff costs		**435,562**	400,843
Pension contributions		**20,108**	19,650
Less: Forfeited contributions		**(21)**	(45)
Net contribution to retirement benefit schemes		**20,087**	19,605
		455,649	420,448
Other operating expenses:			
Operating lease rentals on leasehold buildings		**60,282**	59,766
Depreciation of property and equipment and land held under finance leases	25, 26	**21,616**	23,397
Auditors' remuneration		**3,419**	3,311
Administrative and general expenses		**63,807**	66,537
Others		**174,415**	182,181
Operating expenses before changes in fair value of investment properties		**779,188**	755,640

At 31 December 2014 and 2013, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The current year credits arose in respect of staff who left the schemes during the year.

11. IMPAIRMENT ALLOWANCES

	2014 HK$'000	2013 HK$'000
Net charge for/(write-back of) impairment losses and allowances:		
– loans and advances	**222,564**	321,633
– trade bills, accrued interest and receivables	**(1,458)**	398
	221,106	322,031
Net charge for/(write-back of) impairment losses and allowances:		
– individually assessed	**223,043**	328,984
– collectively assessed	**(1,937)**	(6,953)
	221,106	322,031
Of which:		
– new impairment losses and allowances (including any amount directly written off during the year)	**404,988**	509,387
– releases and recoveries	**(183,882)**	(187,356)
Net charge to the consolidated income statement	**221,106**	322,031

There were no impairment allowances for financial assets other than loans and advances and receivables for the years ended 31 December 2014 and 2013.

12. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622) with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	Group 2014 HK$'000	 2013 HK$'000
Fees	**962**	860
Other emoluments	**5,240**	4,978
	6,202	5,838

Other emoluments included basic salaries, bonus, allowances, benefits in kind and share option benefits.

Notes to Financial Statements

13. TAX

	Note	**2014 HK$'000**	2013 HK$'000
Current tax charge:			
Hong Kong		**56,802**	58,392
Overseas		**14,800**	14,494
Under-provision/(over-provision) in prior years		**41**	(139)
Deferred tax charge, net	30	**4,760**	4,460
		76,403	77,207

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 year. Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the jurisdictions 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:

	2014					
	Hong Kong HK$'000	**%**	**Mainland China HK$'000**	**%**	**Total HK$'000**	**%**
Profit before tax	**364,207**		**66,482**		**430,689**	
Tax at the applicable tax rate	**60,094**	**16.5**	**16,620**	**25.0**	**76,714**	**17.8**
Estimated tax losses from previous periods utilised	**(7)**	**–**	**–**	**–**	**(7)**	**–**
Estimated tax effect of net (income)/expenses that is/are not (taxable)/ deductible	**(652)**	**(0.2)**	**307**	**0.5**	**(345)**	**(0.1)**
Adjustments in respect of current tax of previous periods	**41**	**–**	**–**	**–**	**41**	**–**
Tax charge at the Group's effective rate	**59,476**	**16.3**	**16,927**	**25.5**	**76,403**	**17.7**

13. TAX (Continued)

	2013					
	Hong Kong HK$'000	%	Mainland China HK$'000	%	Total HK$'000	%
Profit before tax	361,535		67,741		429,276	
Tax at the applicable tax rate	59,654	16.5	16,935	25.0	76,589	17.8
Estimated tax losses from previous periods utilised	(6)	–	–	–	(6)	–
Estimated tax effect of net expenses that are not deductible	596	0.2	167	0.2	763	0.2
Adjustments in respect of current tax of previous periods	(186)	(0.1)	47	0.1	(139)	–
Tax charge at the Group's effective rate	60,058	16.6	17,149	25.3	77,207	18.0

14. PROFIT ATTRIBUTABLE TO OWNERS OF THE BANK

The consolidated profit attributable to owners of the Bank for the year ended 31 December 2014 included a profit of HK$335,490,000 (2013: HK$437,933,000) which has been dealt with in the financial statements of the Bank (note 32).

15. DIVIDENDS

(a) Dividends approved and paid during the year

	Bank			
	2014 HK$ per ordinary share	2013 HK$ per ordinary share	**2014 HK$'000**	2013 HK$'000
Interim dividend	**5.7140**	5.9890	**84,659**	88,733
Special dividend	**2.0250**	37.1220	**30,002**	550,000
Final dividend in respect of previous year	**5.5410**	5.2349	**82,095**	77,560
	13.2800	48.3459	**196,756**	716,293

Final dividend of 2013 was paid in 2014 with the consent of shareholders at the 2014 AGM.

Notes to Financial Statements

15. DIVIDENDS (Continued)

(b) Dividends attributable to the year

	Bank			
	2014 **HK$ per ordinary share**	2013 HK$ per ordinary share	**2014** **HK$'000**	2013 HK$'000
Interim dividend	**5.7140**	5.9890	**84,659**	88,733
Special dividend	**2.0250**	37.1220	**30,002**	550,000
Proposed final dividend	**6.0740**	5.5410	**89,992**	82,095
	13.8130	48.6520	**204,653**	720,828

The proposed final dividend was recommended after respective year end and had not been recognised as a liability at respective year end dates. The proposed final dividend of 2014 is subject to the approval of shareholders at the 2015 AGM.

16. CASH AND SHORT TERM PLACEMENTS

	Group		Bank	
	2014 **HK$'000**	2013 HK$'000	**2014** **HK$'000**	2013 HK$'000
Cash on hand	**147,797**	175,895	**129,405**	155,899
Placements with banks and financial institutions	**655,710**	1,050,799	**583,710**	983,185
Money at call and short notice	**3,177,762**	2,733,718	**3,086,077**	2,682,203
	3,981,269	3,960,412	**3,799,192**	3,821,287

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.

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

	Group and Bank	
	2014 **HK$'000**	2013 HK$'000
Placements with banks and financial institutions	**927,219**	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.

18. LOANS AND ADVANCES AND RECEIVABLES

	Group 2014 HK$'000	Group 2013 HK$'000	Bank 2014 HK$'000	Bank 2013 HK$'000
Loans and advances to customers	**28,421,886**	27,035,354	**23,446,961**	22,496,182
Trade bills	**39,935**	55,322	**39,935**	55,322
Loans and advances, and trade bills	**28,461,821**	27,090,676	**23,486,896**	22,551,504
Accrued interest	**75,506**	74,195	**29,453**	27,839
	28,537,327	27,164,871	**23,516,349**	22,579,343
Other receivables	**851**	2,287	**851**	2,287
Gross loans and advances and receivables	**28,538,178**	27,167,158	**23,517,200**	22,581,630
Less: Impairment allowances for loans and advances and receivables				
- individually assessed	**(85,745)**	(119,165)	**(15,032)**	(33,957)
- collectively assessed	**(18,923)**	(20,877)	**(10,000)**	(10,000)
	(104,668)	(140,042)	**(25,032)**	(43,957)
Loans and advances and receivables	**28,433,510**	27,027,116	**23,492,168**	22,537,673

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

Loans and advances and receivables are summarised as follows:

	Group 2014 HK$'000	Group 2013 HK$'000	Bank 2014 HK$'000	Bank 2013 HK$'000
Neither past due nor impaired loans and advances and receivables	**28,045,605**	26,633,773	**23,360,161**	22,414,767
Past due but not impaired loans and advances and receivables	**354,930**	357,818	**123,930**	115,987
Individually impaired loans and advances	**135,391**	171,457	**30,915**	46,766
Individually impaired receivables	**2,252**	4,110	**2,194**	4,110
Total loans and advances and receivables	**28,538,178**	27,167,158	**23,517,200**	22,581,630

About 65% 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.

Notes to Financial Statements

18. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	Group				Bank			
	2014		2013		**2014**		2013	
	Gross amount HK$'000	**Percentage of total loans and advances %**	Gross amount HK$'000	Percentage of total loans and advances %	**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	**69,841**	**0.25**	107,463	0.40	**2,219**	**0.01**	18,492	0.08
One year or less but over six months	**8,162**	**0.03**	3,139	0.01	**4,323**	**0.02**	296	–
Over one year	**21,004**	**0.07**	22,897	0.08	**21,004**	**0.09**	22,897	0.11
Loans and advances overdue for more than three months	**99,007**	**0.35**	133,499	0.49	**27,546**	**0.12**	41,685	0.19
Rescheduled loans and advances overdue for three months or less	**31,338**	**0.11**	34,291	0.13	**2,092**	**0.01**	2,695	0.01
Impaired loans and advances overdue for three months or less	**5,046**	**0.02**	3,667	0.01	**1,277**	**-**	2,386	0.01
Total overdue and impaired loans and advances	**135,391**	**0.48**	171,457	0.63	**30,915**	**0.13**	46,766	0.21

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

	Group		Bank	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Trade bills, accrued interest and other receivables overdue for:				
Six months or less but over three months	**115**	192	**115**	192
One year or less but over six months	**447**	23	**389**	23
Over one year	**1,655**	3,797	**1,655**	3,797
Trade bills, accrued interest and other receivables overdue for more than three months	**2,217**	4,012	**2,159**	4,012
Impaired trade bills, accrued interest and other receivables overdue for three months or less	**35**	98	**35**	98
Total overdue and impaired trade bills, accrued interest and other receivables	**2,252**	4,110	**2,194**	4,110

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

18. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

(i) Analysis of overdue loans and advances and receivables

2014

	Group Hong Kong HK$'000	Group Mainland China HK$'000	Group Total HK$'000	Bank Hong Kong HK$'000	Bank Mainland China HK$'000	Bank Total HK$'000
Loans and advances and receivables overdue for more than three months	**89,034**	**12,190**	**101,224**	**17,515**	**12,190**	**29,705**
Individual impairment allowances	**57,426**	**5,545**	**62,971**	**7,152**	**5,545**	**12,697**
Current market value and fair value of collateral			**45,582**			**42,682**

2013

	Group Hong Kong HK$'000	Group Mainland China HK$'000	Group Total HK$'000	Bank Hong Kong HK$'000	Bank Mainland China HK$'000	Bank Total HK$'000
Loans and advances and receivables overdue for more than three months	114,667	22,844	137,511	22,853	22,844	45,697
Individual impairment allowances	76,267	18,921	95,188	10,349	18,921	29,270
Current market value and fair value of collateral			63,853			63,853

Notes to Financial Statements

18. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

(ii) Analysis of impaired loans and advances and receivables

2014

	Group Hong Kong HK$'000	Group Mainland China HK$'000	Group Total HK$'000	Bank Hong Kong HK$'000	Bank Mainland China HK$'000	Bank Total HK$'000
Impaired loans and advances and receivables	**125,392**	**12,251**	**137,643**	**20,858**	**12,251**	**33,109**
Individual impairment allowances	**80,139**	**5,606**	**85,745**	**9,426**	**5,606**	**15,032**
Current market value and fair value of collateral			**47,988**			**45,088**

2013

	Group Hong Kong HK$'000	Group Mainland China HK$'000	Group Total HK$'000	Bank Hong Kong HK$'000	Bank Mainland China HK$'000	Bank Total HK$'000
Impaired loans and advances and receivables	151,718	23,849	175,567	27,027	23,849	50,876
Individual impairment allowances	99,238	19,927	119,165	14,030	19,927	33,957
Current market value and fair value of collateral			65,056			65,056

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

18. 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:

	Group		Bank	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**45,582**	63,853	**42,682**	63,853
Covered portion of overdue loans and advances	**15,552**	23,646	**13,200**	23,646
Uncovered portion of overdue loans and advances	**83,455**	109,853	**14,346**	18,039

The assets taken as collateral should satisfy the following criteria:

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

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

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

(d) Repossessed assets

As at 31 December 2014, the total value of repossessed assets of the Group and the Bank amounted to HK$25,730,000 (2013: HK$6,200,000).

Notes to Financial Statements

18. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	Group				Bank			
	2014		2013		2014		2013	
	Gross amount HK$'000	Percentage of total loans and advances %	Gross amount HK$'000	Percentage of total loans and advances %	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	**354,117**	**1.25**	355,691	1.32	**123,275**	**0.53**	113,860	0.51
Trade bills, accrued interest and other receivables overdue for three months or less	**813**		2,127		**655**		2,127	

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

2014

	Group			Bank		
	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
At 1 January 2014	119,165	20,877	140,042	33,957	10,000	43,957
Amounts written off	(422,452)	-	(422,452)	(17,125)	-	(17,125)
Impairment losses and allowances charged to the consolidated income statement	403,719	1,269	404,988	12,887	1,196	14,083
Impairment losses and allowances released to the consolidated income statement	(180,676)	(3,206)	(183,882)	(25,029)	(1,179)	(26,208)
Net charge/(release) of impairment losses and allowances	223,043	(1,937)	221,106	(12,142)	17	(12,125)
Loans and advances and receivables recovered	166,502	-	166,502	10,855	-	10,855
Exchange difference	(513)	(17)	(530)	(513)	(17)	(530)
At 31 December 2014	85,745	18,923	104,668	15,032	10,000	25,032
Deducted from:						
Loans and advances	84,852	18,897	103,749	14,139	9,974	24,113
Trade bills, accrued interest and other receivables	893	26	919	893	26	919
	85,745	18,923	104,668	15,032	10,000	25,032

18. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

2013

	Group Individual impairment allowances HK$'000	Group Collective impairment allowances HK$'000	Group Total HK$'000	Bank Individual impairment allowances HK$'000	Bank Collective impairment allowances HK$'000	Bank Total HK$'000
At 1 January 2013	124,137	27,394	151,531	35,160	10,500	45,660
Amounts written off	(491,496)	–	(491,496)	(6,500)	–	(6,500)
Impairment losses and allowances charged to the consolidated income statement	509,080	307	509,387	27,853	296	28,149
Impairment losses and allowances released to the consolidated income statement	(180,096)	(7,260)	(187,356)	(24,721)	(1,232)	(25,953)
Net charge/(release) of impairment losses and allowances	328,984	(6,953)	322,031	3,132	(936)	2,196
Loans and advances and receivables recovered	157,185	–	157,185	1,810	–	1,810
Exchange difference	355	436	791	355	436	791
At 31 December 2013	119,165	20,877	140,042	33,957	10,000	43,957
Deducted from:						
Loans and advances	116,908	20,768	137,676	31,700	9,891	41,591
Trade bills, accrued interest and other receivables	2,257	109	2,366	2,257	109	2,366
	119,165	20,877	140,042	33,957	10,000	43,957

Notes to Financial Statements

18. 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:

2014

	Group		Bank	
	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	**379,228**	**283,853**	**312,826**	**232,413**
In the second to fifth years, inclusive	**1,128,029**	**821,638**	**963,149**	**703,000**
Over five years	**3,903,323**	**3,261,827**	**3,327,364**	**2,783,100**
	5,410,580	**4,367,318**	**4,603,339**	**3,718,513**
Less: Unearned finance income	**(1,043,262)**		**(884,826)**	
Present value of minimum lease payments receivable	**4,367,318**		**3,718,513**	

2013

	Group		Bank	
	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	384,485	289,489	324,586	242,341
In the second to fifth years, inclusive	1,115,486	812,964	973,632	710,939
Over five years	3,850,125	3,215,212	3,365,200	2,812,809
	5,350,096	4,317,665	4,663,418	3,766,089
Less: Unearned finance income	(1,032,431)		(897,329)	
Present value of minimum lease payments receivable	4,317,665		3,766,089	

The Group and the Bank have 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.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group and Bank	
	2014	2013
	HK$'000	HK$'000
Unlisted equity investments in corporate entity, at fair value:		
At the beginning and at the end of the year	**6,804**	6,804

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

20. HELD-TO-MATURITY INVESTMENTS

	Group		Bank	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Certificates of deposit held	**2,361,458**	1,894,973	**2,361,458**	1,894,973
Treasury bills (including Exchange Fund Bills)	**1,816,022**	1,993,645	**1,806,023**	1,983,647
Other debt securities	**774,228**	892,287	**774,228**	892,287
	4,951,708	4,780,905	**4,941,709**	4,770,907
Listed or unlisted:				
– Listed in Hong Kong	**1,155,047**	644,484	**1,155,047**	644,484
– Listed outside Hong Kong	**98,791**	282,261	**98,791**	282,261
– Unlisted	**3,697,870**	3,854,160	**3,687,871**	3,844,162
	4,951,708	4,780,905	**4,941,709**	4,770,907
Analysed by type of issuers:				
– Central government	**1,816,022**	1,993,645	**1,806,023**	1,983,647
– Banks and other financial institutions	**3,135,686**	2,787,260	**3,135,686**	2,787,260
	4,951,708	4,780,905	**4,941,709**	4,770,907

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

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

Notes to Financial Statements

21. INVESTMENTS IN SUBSIDIARIES

	Bank 2014 HK$'000	2013 HK$'000
Unlisted shares, at cost	**1,756,697**	1,756,697
Provision for investments in subsidiaries	**(700)**	(700)
	1,755,997	1,755,997

Particulars of the Bank's subsidiaries, all of which are incorporated and operated in Hong Kong, are as follows:

Name	Issued ordinary share capital HK$	Percentage of equity attributable to the Bank %	Principal activities
Public Financial Securities Limited	48,000,000	100	Securities brokerage
Public Bank (Nominees) Limited	100,000	100	Provision of nominee services
Public Investments Limited	200	100	Dormant
Public Realty Limited	100,000	100	Dormant
Public Credit Limited	5,000,000	100	Dormant
Public Futures Limited	2	100	Dormant
Public Pacific Securities Limited	12,000,000	100	Dormant
Public Finance Limited	258,800,000	100	Deposit-taking and financing
Public Financial Limited	10,100,000	100	Investment holding
Public Securities Limited	10,000,000	100	Securities brokerage
Public Securities (Nominees) Limited	10,000	100	Provision of nominee services

22. INTEREST IN A JOINT VENTURE

	Group 2014 HK$'000	Group 2013 HK$'000	Bank 2014 HK$'000	Bank 2013 HK$'000
Unlisted shares, at cost	**–**	–	**1,500**	1,500
Share of net assets other than goodwill	**1,693**	1,513	**–**	–
	1,693	1,513	**1,500**	1,500

Particulars of the Group's joint venture are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership, interest and profit sharing %	Voting power	Principal activity
Net Alliance Co. Limited	Corporate	Hong Kong	17.6	2 out of 8*	Provision of electronic banking support services

* Representing the number of votes on the board of directors attributable to the Group.

The following table illustrates the summarised financial information of the Group's interest in the joint venture which is accounted for using the equity method:

	2014 HK$'000	2013 HK$'000
Share of the joint venture's assets and liabilities:		
Assets	**1,875**	2,129
Liabilities	**(182)**	(616)
Net assets	**1,693**	1,513
Share of the joint venture's profit and loss:		
Total income	**1,893**	1,520
Total expenses	**(1,713)**	(1,520)
Profit after tax	**180**	–

The joint venture had no contingent liabilities or capital commitments as at 31 December 2014 and 2013.

Notes to Financial Statements

23. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	Group 2014 HK$'000	2013 HK$'000	Bank 2014 HK$'000	2013 HK$'000
Interest receivables from authorised institutions	**16,724**	10,736	**16,721**	10,735
Other debtors, deposits and prepayments	**114,259**	87,448	**116,457**	101,611
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	**33,193**	22,180	**–**	–
	164,176	120,364	**133,178**	112,346

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

Other liabilities

	Group 2014 HK$'000	2013 HK$'000	Bank 2014 HK$'000	2013 HK$'000
Interest payable	**103,589**	90,191	**89,509**	78,162
Creditors, accruals and other payables	**250,837**	226,987	**150,914**	148,294
Due to subsidiaries	**–**	–	**40,707**	33,803
Net amount of accounts payable to HKSCC	**19,133**	–	**–**	–
	373,559	317,178	**281,130**	260,259

23. OTHER ASSETS AND OTHER LIABILITIES (Continued)

Public Financial Securities Limited and Public Securities Limited maintain accounts with HKSCC through which they conduct securities trading transactions and settlement on a net basis.

In presenting the amounts due from and to HKSCC, the individual subsidiaries concerned have offset the gross amount of the accounts receivable from and the gross amount of the accounts payable to HKSCC. The amounts offset and the net balances are shown as follows:

Group

	Gross amount HK$'000	**Amount offset HK$'000**	**Net amount HK$'000**
Other assets			
2014			
Amount of accounts receivable from HKSCC	**58,933**	**(25,740)**	**33,193**
2013			
Amount of accounts receivable from HKSCC	59,467	(37,287)	22,180
Other liabilities			
2014			
Amount of accounts payable to HKSCC	**(40,823)**	**21,690**	**(19,133)**
2013			
Amount of accounts payable to HKSCC	–	–	–

24. INTANGIBLE ASSETS

	Group	
	2014 HK$'000	2013 HK$'000
Cost:		
At the beginning and at the end of the year	**1,923**	1,923
Accumulated impairment:		
At the beginning and at the end of the year	**1,205**	1,205
Net carrying amount:		
At the beginning and at the end of the 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.

No intangible asset was held by the Bank as at 31 December 2014 and 2013.

Notes to Financial Statements

25. PROPERTY AND EQUIPMENT

	Group			Bank		
	Buildings HK$'000	Leasehold improvements, furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000	Buildings HK$'000	Leasehold improvements, furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000
Cost:						
At 1 January 2014	**17,090**	**191,117**	**208,207**	**14,887**	**149,552**	**164,439**
Additions	**–**	**19,926**	**19,926**	**–**	**13,079**	**13,079**
Transfer from investment properties	**655**	**–**	**655**	**–**	**–**	**–**
Disposals/write-off	**–**	**(1,318)**	**(1,318)**	**–**	**(878)**	**(878)**
At 31 December 2014	**17,745**	**209,725**	**227,470**	**14,887**	**161,753**	**176,640**
Accumulated depreciation:						
At 1 January 2014	**5,705**	**137,238**	**142,943**	**4,861**	**108,234**	**113,095**
Provided during the year	**415**	**17,925**	**18,340**	**355**	**9,754**	**10,109**
Disposals/write-off	**–**	**(1,188)**	**(1,188)**	**–**	**(875)**	**(875)**
Exchange difference	**(34)**	**–**	**(34)**	**(34)**	**–**	**(34)**
At 31 December 2014	**6,086**	**153,975**	**160,061**	**5,182**	**117,113**	**122,295**
Net carrying amount:						
At 31 December 2014	**11,659**	**55,750**	**67,409**	**9,705**	**44,640**	**54,345**
At 31 December 2013	11,385	53,879	65,264	10,026	41,318	51,344

25. PROPERTY AND EQUIPMENT (Continued)

	Group			Bank		
	Buildings HK$'000	Leasehold improvements, furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000	Buildings HK$'000	Leasehold improvements, furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000
Cost:						
At 1 January 2013	17,090	177,308	194,398	14,887	141,862	156,749
Additions	–	19,637	19,637	–	13,231	13,231
Disposals/write-off	–	(5,828)	(5,828)	–	(5,541)	(5,541)
At 31 December 2013	17,090	191,117	208,207	14,887	149,552	164,439
Accumulated depreciation:						
At 1 January 2013	5,327	123,222	128,549	4,539	103,116	107,655
Provided during the year	342	19,794	20,136	286	10,658	10,944
Disposals/write-off	–	(5,778)	(5,778)	–	(5,540)	(5,540)
Exchange difference	36	–	36	36	–	36
At 31 December 2013	5,705	137,238	142,943	4,861	108,234	113,095
Net carrying amount:						
At 31 December 2013	11,385	53,879	65,264	10,026	41,318	51,344
At 31 December 2012	11,763	54,086	65,849	10,348	38,746	49,094

No valuation has been made for the above items of property and equipment for the years ended 31 December 2014 and 2013.

Notes to Financial Statements

26. LAND HELD UNDER FINANCE LEASES

	Group HK$'000	Bank HK$'000
Cost:		
At 1 January 2013, 31 December 2013 and 1 January 2014	**137,196**	**131,693**
Transfer from investment properties	**6,425**	**–**
At 31 December 2014	**143,621**	**131,693**
Accumulated depreciation and impairment:		
At 1 January 2013	32,463	28,782
Depreciation provided during the year	3,261	2,723
At 31 December 2013 and 1 January 2014	**35,724**	**31,505**
Depreciation provided during the year	**3,276**	**2,723**
At 31 December 2014	**39,000**	**34,228**
Net carrying amount:		
At 31 December 2014	**104,621**	**97,465**
At 31 December 2013	101,472	100,188

The Group's and the Bank's land held under finance leases at net carrying amount is held under the following lease terms:

	Group		Bank	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Leaseholds:				
Held in Hong Kong				
– On long term leases	**7,146**	7,154	**12,371**	12,385
– On medium term leases	**82,485**	78,772	**70,104**	72,257
Held outside Hong Kong				
– On medium term leases	**14,990**	15,546	**14,990**	15,546
	104,621	101,472	**97,465**	100,188

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.

27. INVESTMENT PROPERTIES

	Group		Bank	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Carrying amount at 1 January	**65,543**	63,564	**29,728**	28,453
Transfer to property and equipment	**(655)**	–	**–**	–
Transfer to land held under finance leases	**(6,425)**	–	**–**	–
Change in fair value recognised in income statement	**2,800**	1,979	**1,707**	1,275
Carrying amount at 31 December	**61,263**	65,543	**31,435**	29,728

The Group's and the Bank'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 year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (2013: Nil). The Group and the Bank have assessed that the highest and best use of its properties did not differ from their existing use.

At 31 December 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:

Group

	2014		2013	
	Range	**Weighted average**	Range	Weighted average
Price per square metre	**HK$70,000 to HK$461,000**	**HK$215,000**	HK$65,000 to HK$442,000	HK$191,000

Bank

	2014		2013	
	Range	**Weighted average**	Range	Weighted average
Price per square metre	**HK$109,000 to HK$461,000**	**HK$351,000**	HK$99,000 to HK$442,000	HK$339,000

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 and the Bank are let under operating leases from which the Group and the Bank earn rental income. Details of future annual rental receivables under operating leases are included in note 35(a) to the financial statements.

Notes to Financial Statements

28. GOODWILL

	Group 2014 HK$'000	2013 HK$'000
Cost and net carrying amount:		
At the beginning and at the end of the year	**242,342**	242,342

Impairment test of goodwill

There is a CGU, namely Public Finance, which represents an operating entity within the business segment "Retail and commercial banking businesses" identified by the Group. The recoverable amount of the CGU at each subsequent reporting date is determined based on the value in use using the present value of cash flows. The cash flow projections are based on financial budgets approved by management covering a 10-year period and assumed growth rates are used to extrapolate the cash flows in the following 40 years. The financial budgets are prepared based on a 10-year business plan which is appropriate after considering the sustainability of business growth, stability of core business developments, long term economic cycle and achievement of business targets extrapolated from a track record of financial results. All cash flows are discounted at discount rates of 3% and 6% under baseline and stressed scenarios, respectively. Management's financial model assumes an average growth rate of 5% to 6% per annum from the eleventh to fiftieth year taking into account long term gross domestic product growth and other relevant economic factors. The discount rates used are based on the rates which reflect specific risks relating to the CGU.

No impairment loss has been recognised in respect of goodwill for the years ended 31 December 2014 and 2013 as its value in use exceeds the carrying amount.

29. CUSTOMER DEPOSITS AT AMORTISED COST

	Group		Bank	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Demand deposits and current accounts	**3,075,760**	2,360,044	**3,176,857**	2,455,701
Savings deposits	**4,261,031**	4,068,613	**4,261,173**	4,068,755
Time, call and notice deposits	**24,318,695**	23,661,746	**20,116,885**	19,725,964
	31,655,486	30,090,403	**27,554,915**	26,250,420

30. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Group

Deferred tax assets:

	Impairment allowances for loans and advances and receivables HK$'000	Others HK$'000	Total HK$'000
At 1 January 2013	36,266	155	36,421
Deferred tax (charged)/credited to consolidated income statement	(5,980)	101	(5,879)
At 31 December 2013 and 1 January 2014	**30,286**	**256**	**30,542**
Deferred tax (charged)/credited to consolidated income statement	**(4,769)**	**126**	**(4,643)**
At 31 December 2014	**25,517**	**382**	**25,899**

Deferred tax liabilities:

	Depreciation allowance in excess of related depreciation HK$'000
At 1 January 2013	8,326
Deferred tax credited to consolidated income statement	(1,419)
At 31 December 2013 and 1 January 2014	**6,907**
Deferred tax charged to consolidated income statement	**117**
At 31 December 2014	**7,024**

Notes to Financial Statements

30. DEFERRED TAX (Continued)

Bank

Deferred tax assets:

	Impairment allowances for loans and advances and receivables HK$'000	Others HK$'000	Total HK$'000
At 1 January 2013	20,178	155	20,333
Deferred tax (charged)/credited to income statement	(4,856)	64	(4,792)
At 31 December 2013 and 1 January 2014	**15,322**	**219**	**15,541**
Deferred tax (charged)/credited to income statement	**(2,063)**	**129**	**(1,934)**
At 31 December 2014	**13,259**	**348**	**13,607**

Deferred tax liabilities:

	Depreciation allowance in excess of related depreciation HK$'000
At 1 January 2013	5,466
Deferred tax credited to income statement	(1,234)
At 31 December 2013 and 1 January 2014	**4,232**
Deferred tax charged to income statement	**516**
At 31 December 2014	**4,748**

31. SHARE CAPITAL

	2014 **HK$'000**	2013 HK$'000
Authorised: (note (i))		
Nil (2013: 20,000,000) ordinary shares of HK$100 each (note (ii))	**–**	2,000,000
Issued and fully paid:		
14,816,000 (2013: 14,816,000) ordinary shares	**2,854,045**	1,481,600

A summary of movements in the Bank's share capital is shown as follows:

	Share capital HK$'000
At 1 January 2013, 31 December 2013 and 1 January 2014	**1,481,600**
Transition to no-par value regime on 3 March 2014 (note (iii))	**1,372,445**
At 31 December 2014	**2,854,045**

Notes:

(i) Under the Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.

(ii) In accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622), the Bank's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members of the Bank as a result of this transition.

(iii) In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), any amount standing to the credit of the share premium account has become part of the Bank's share capital on 3 March 2014.

Notes to Financial Statements

32. RESERVES

Group

	Other statutory capital reserves – Share premium HK$'000	Other reserves					Total HK$'000
		Group reconstruction reserve HK$'000	Capital reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Translation reserve HK$'000	
At 1 January 2013	1,372,445	3,065	17,660	409,367	1,888,208	71,071	2,389,371
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	**1,372,445**	**3,065**	**17,660**	**410,145**	**1,523,206**	**84,732**	**2,038,808**
Transition to no-par value regime on 3 March 2014 (note 31)	**(1,372,445)**	**–**	**–**	**–**	**–**	**–**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**354,286**	**–**	**354,286**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**(16,579)**	**(16,579)**
Transfer from retained profits	**–**	**–**	**–**	**28,790**	**(28,790)**	**–**	**–**
Dividends paid in respect of previous year	**–**	**–**	**–**	**–**	**(82,095)**	**–**	**(82,095)**
Dividends paid in respect of current year	**–**	**–**	**–**	**–**	**(114,661)**	**–**	**(114,661)**
At 31 December 2014	**–**	**3,065**	**17,660**	**438,935**	**1,651,946**	**68,153**	**2,179,759**

32. RESERVES (Continued)

Bank

	Other statutory capital reserves – Share premium HK$'000	Other reserves				Total HK$'000
		Capital reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Translation reserve HK$'000	
At 1 January 2013	1,372,445	3,660	324,038	1,840,816	71,071	2,239,585
Profit for the year	–	–	–	437,933	–	437,933
Other comprehensive income	–	–	–	–	13,661	13,661
Transfer from retained profits	–	–	4,235	(4,235)	–	–
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	**1,372,445**	**3,660**	**328,273**	**1,558,221**	**84,732**	**1,974,886**
Transition to no-par value regime on 3 March 2014 (note 31)	**(1,372,445)**	**-**	**-**	**-**	**-**	**-**
Profit for the year	**-**	**-**	**-**	**335,490**	**-**	**335,490**
Other comprehensive income	**-**	**-**	**-**	**-**	**(16,579)**	**(16,579)**
Transfer from retained profits	**-**	**-**	**14,030**	**(14,030)**	**-**	**-**
Dividends paid in respect of previous year	**-**	**-**	**-**	**(82,095)**	**-**	**(82,095)**
Dividends paid in respect of current year	**-**	**-**	**-**	**(114,661)**	**-**	**(114,661)**
At 31 December 2014	**-**	**3,660**	**342,303**	**1,682,925**	**68,153**	**2,097,041**

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 allowance were included as CET1 capital in the Group's capital base at 31 December 2014 as defined in the Guideline. The regulatory reserve was held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to the Guideline from the HKMA.

Notes to Financial Statements

33. LOANS TO DIRECTORS AND OFFICERS

Loans to Directors and officers, disclosed pursuant to section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622) with reference to section 161B of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	Group and Bank	
	2014	2013
	HK$'000	HK$'000
Aggregate amount of principal and interest outstanding at the end of the year	**117**	87
Maximum aggregate amount of principal and interest outstanding during the year	**403**	790

The loans to Directors and officers are granted on essentially the same terms as those offered to other customers, and/or at prevailing market rates and have no fixed terms of repayment.

The carrying amounts of these loans approximate to their fair values.

34. 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 and of the Bank outstanding at the end of the year:

Group

			2014		
	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	227,329	227,329	98,883	–	–
Transaction-related contingencies	14,923	7,462	2,734	–	–
Trade-related contingencies	39,393	7,878	7,661	–	–
Forward forward deposits placed	253,079	253,079	50,616	–	–
Forward asset purchases	513	513	103	–	–
	535,237	496,261	159,997	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	665,872	6,461	151	2,170	5,994
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	–	–	–	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	4,406,010	–	–	–	–
	5,607,119	502,722	160,148	2,170	5,994
Capital commitments contracted for, but not provided in the consolidated statement of financial position	6,302				

Notes to Financial Statements

34. OFF-BALANCE SHEET EXPOSURE (Continued)

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

Bank

			2014		
	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	227,329	227,329	98,883	–	–
Transaction-related contingencies	14,923	7,462	2,734	–	–
Trade-related contingencies	39,393	7,878	7,661	–	–
Forward forward deposits placed	253,079	253,079	50,616	–	–
Forward asset purchases	513	513	103	–	–
	535,237	496,261	159,997	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	665,872	6,461	151	2,170	5,994
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	–	–	–	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	4,295,950	–	–	–	–
	5,497,059	502,722	160,148	2,170	5,994
Capital commitments contracted for, but not provided in the statement of financial position	5,451				

34. OFF-BALANCE SHEET EXPOSURE (Continued)

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

Group

			2013		
	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				

Notes to Financial Statements

34. OFF-BALANCE SHEET EXPOSURE (Continued)

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

Bank

	2013				
	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	3,872,129	–	–	–	–
	4,669,218	259,243	133,802	771	610
Capital commitments contracted for, but not provided in the statement of financial position	3,968				

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

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

34. OFF-BALANCE SHEET EXPOSURE (Continued)

(b) Derivative financial instruments

The Group uses the following derivative financial instruments:

Currency forwards represent commitments to purchase foreign and domestic currencies, including undelivered spot transactions. Foreign currency and interest 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.

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group and the Bank lease their investment properties in note 27 under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

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

	Group		Bank	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**1,995**	2,889	**2,353**	2,703
In the second to fifth years, inclusive	**2,062**	878	**2,253**	817
	4,057	3,767	**4,606**	3,520

Notes to Financial Statements

35. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

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

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

	Group		Bank	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**62,603**	58,862	**33,609**	31,185
In the second to fifth years, inclusive	**39,569**	34,297	**21,994**	21,509
	102,172	93,159	**55,603**	52,694

36. RELATED PARTY TRANSACTIONS

During the year, the Group had the following major transactions with related parties in the normal course of business. In addition to those disclosed elsewhere in the financial statements, the details of related party transactions, related expenses and income for the year and outstanding balances as at the year end are as follows:

		Group	
		2014	2013
	Notes	**HK$'000**	HK$'000
Related party transactions included in the consolidated income statement:			
Management fees and bank service charges from a fellow subsidiary	(a)	**915**	879
Management fees to the immediate holding company	(a)	**1,740**	1,740
Rent paid to the immediate holding company	(c)	**41,993**	36,772
Building management fee to the immediate holding company	(c)	**83**	83
Interest received from the immediate holding company	(l)	**497**	496
Interest received from key management personnel	(e)	**2**	3
Interest paid to the ultimate holding company	(f)	**2,084**	4
Interest paid to the immediate holding company	(f)	**181**	282
Interest paid to fellow subsidiaries and an affiliated company	(f)	**6,129**	6,145
Interest paid to key management personnel	(f)	**21**	23
Commission and service fee paid to fellow subsidiaries	(g)	**123**	245
Commission income from key management personnel	(j)	**2**	23
Commitment fee paid to the ultimate holding company	(k)	**2,328**	2,327
Key management personnel compensation:			
– Short-term employee benefits	(h)	**5,401**	4,980
– Post employment benefits	(h)	**268**	251

36. RELATED PARTY TRANSACTIONS (Continued)

	Notes	Group 2014 HK$'000	Group 2013 HK$'000	Bank 2014 HK$'000	Bank 2013 HK$'000
Related party transactions included in the consolidated statement of financial position:					
Cash and short term funds with the ultimate holding company	(d)	**2,922**	416	**2,700**	368
Rental deposit from a fellow subsidiary	(b)	**60**	52	**60**	52
Rental deposits to the immediate holding company	(c)	**1,249**	1,247	**1,106**	1,104
Loans to key management personnel	(e)	**92**	217	**8**	8
Deposits from the ultimate holding company	(f)	**17,545**	7,575	**17,545**	7,575
Deposits from the immediate holding company	(f)	**64,065**	106,817	**64,065**	106,817
Deposits from fellow subsidiaries and an affiliated company	(f)	**1,185,787**	1,233,207	**1,185,787**	1,233,207
Deposits from key management personnel	(f)	**2,377**	2,623	**2,377**	2,623
Bank loans to the immediate holding company	(l)	**35,000**	35,000	**35,000**	35,000
Interest receivable from the immediate holding company	(l)	**1**	3	**1**	3
Interest payable to the immediate holding company	(f)	**–**	29	**–**	29
Interest payable to a fellow subsidiary and an affiliated company	(f)	**328**	111	**328**	111
Interest payable to key management personnel	(f)	**2**	1	**2**	1
Amounts due from a fellow subsidiary included in other assets	(i)	**6,854**	6,833	**–**	–

Notes:

(a) Management fees arose in respect of administrative services provided to/from a fellow subsidiary and the immediate holding company by/to the Group. They were charged based on costs incurred during the year.

(b) Rental deposit was derived from a property leased to a fellow subsidiary as its office.

(c) Rent paid, rental deposits and building management fee were related to properties rented from the immediate holding company as the Bank's offices during the year.

(d) The Group and the Bank placed deposits with the ultimate holding company. Interests were received/receivable from the ultimate holding company. The balances of the said deposits and interest receivable were included in cash and short term placements and other assets, respectively, in the consolidated statement of financial position.

(e) These balances represented a mortgage loan granted to a Director of Public Finance and a tax loan and credit card receivables due from Directors of the Bank. Interest income was received in respect of the mortgage loan.

Notes to Financial Statements

36. RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

(f) The ultimate holding company, the immediate holding company, fellow subsidiaries, an affiliated company and key management personnel placed deposits with the Group and the Bank at the prevailing market rates. Interest expense/payables were paid by the Group and the Bank for the year in respect of these placements. The balances were included in customer deposits in the consolidated statement of financial position. During the year, interest was also paid to a fellow subsidiary for a loan granted to a subsidiary of the Group.

(g) The expenses represented commission and service fee paid for the referrals of taxi financing loans and stockbroking business from fellow subsidiaries during the year.

(h) Further details of the Directors' remuneration are included in note 12 to the financial statements.

(i) These balances include other receivables from a fellow subsidiary.

(j) Commission income was received from key management personnel of the Group for securities dealings through the Group companies.

(k) During the year, commitment fee was paid to the ultimate holding company in order to obtain standby facilities from the ultimate holding company to the Bank and Public Finance.

(l) During the year, a facility line was granted to the immediate holding company in the normal course of business by the Bank and interest was received/receivable from immediate holding company.

37. 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 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.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

		2014		
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets:				
Derivative financial instruments	**–**	**2,170**	**–**	**2,170**
Available-for-sale financial assets	**–**	**–**	**6,804**	**6,804**
	–	**2,170**	**6,804**	**8,974**
Financial liabilities:				
Derivative financial instruments	**–**	**5,994**	**–**	**5,994**

		2013		
	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

Notes to Financial Statements

37. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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 31 December 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 reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. Finance and Control Department performs the valuation of financial instruments required for financial reporting purposes, including Level 3 fair values, at the end of each reporting period. The impact due to changes in fair value of the Level 3 financial instruments is insignificant to the Group.

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

For the years ended 31 December 2014 and 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 the consolidated income statement and consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the years ended 31 December 2014 and 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.

38. 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. The Group's and the Bank's contractual undiscounted repayment obligations are shown in the sub-section "Liquidity risk management" in note 39 to the financial statements.

Group

	2014							
	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	803,507	3,177,762	–	–	–	–	–	3,981,269
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	346,573	580,646	–	–	–	927,219
Loans and advances and receivables (gross)	612,411	1,677,574	1,569,560	3,468,009	6,401,940	14,700,519	108,165	28,538,178
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	633,829	478,357	2,785,486	1,054,036	–	–	4,951,708
Other assets	154	98,241	5,317	8,908	–	–	51,556	164,176
Foreign exchange contracts (gross)	–	661,182	4,690	–	–	–	–	665,872
Total financial assets	1,416,072	6,248,588	2,404,497	6,843,049	7,455,976	14,700,519	166,525	39,235,226
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	37,173	327,892	50,000	100,000	–	–	–	515,065
Customer deposits at amortised cost	7,342,021	10,117,654	10,969,078	2,724,462	502,271	–	–	31,655,486
Certificates of deposit issued at amortised cost	–	–	409,980	953,514	–	–	–	1,363,494
Other liabilities	239	132,473	32,443	34,310	12,723	–	161,371	373,559
Foreign exchange contracts (gross)	–	665,020	4,676	–	–	–	–	669,696
Total financial liabilities	7,379,433	11,243,039	11,466,177	3,812,286	514,994	–	161,371	34,577,300
Net liquidity gap	(5,963,361)	(4,994,451)	(9,061,680)	3,030,763	6,940,982	14,700,519	5,154	4,657,926

Notes to Financial Statements

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

Bank

	2014							
	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	713,115	3,086,077	–	–	–	–	–	3,799,192
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	346,573	580,646	–	–	–	927,219
Loans and advances and receivables (gross)	589,082	1,441,412	1,187,417	2,117,968	4,576,112	13,605,209	–	23,517,200
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	633,829	468,358	2,785,486	1,054,036	–	–	4,941,709
Other assets	154	92,144	5,317	8,908	–	–	26,655	133,178
Foreign exchange contracts (gross)	–	661,182	4,690	–	–	–	–	665,872
Total financial assets	1,302,351	5,914,644	2,012,355	5,493,008	5,630,148	13,605,209	33,459	33,991,174
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	151,616	787,892	50,000	100,000	–	–	–	1,089,508
Customer deposits at amortised cost	7,438,030	9,063,121	8,787,075	1,764,418	502,271	–	–	27,554,915
Certificates of deposit issued at amortised cost	–	–	409,980	953,514	–	–	–	1,363,494
Other liabilities	194	107,456	26,402	32,375	12,723	–	101,980	281,130
Foreign exchange contracts (gross)	–	665,020	4,676	–	–	–	–	669,696
Total financial liabilities	7,589,840	10,623,489	9,278,133	2,850,307	514,994	–	101,980	30,958,743
Net liquidity gap	(6,287,489)	(4,708,845)	(7,265,778)	2,642,701	5,115,154	13,605,209	(68,521)	3,032,431

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

Group

	2013							
	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 (gross)	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
Net liquidity gap	(4,675,106)	(4,589,224)	(8,111,995)	1,616,559	6,418,950	13,857,940	29,197	4,546,321

Notes to Financial Statements

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

Bank

	2013							
	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	1,139,084	2,682,203	–	–	–	–	–	3,821,287
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 (gross)	544,119	871,261	1,186,741	2,171,195	4,865,498	12,942,816	–	22,581,630
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	1,110,396	641,541	2,355,704	663,266	–	–	4,770,907
Other assets	123	75,824	3,435	4,605	–	–	28,359	112,346
Foreign exchange contracts (gross)	–	433,194	1,527	–	–	–	–	434,721
Total financial assets	1,683,326	5,172,878	2,820,618	4,740,121	5,528,764	12,942,816	35,163	32,923,686
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	157,434	898,846	100,000	100,000	–	–	–	1,256,280
Customer deposits at amortised cost	6,524,455	8,487,245	8,915,879	2,007,501	315,340	–	–	26,250,420
Certificates of deposit issued at amortised cost	–	–	199,876	1,184,767	409,849	–	–	1,794,492
Other liabilities	322	86,705	26,110	30,120	8,576	–	108,426	260,259
Foreign exchange contracts (gross)	–	433,042	1,518	–	–	–	–	434,560
Total financial liabilities	6,682,211	9,905,838	9,243,383	3,322,388	733,765	–	108,426	29,996,011
Net liquidity gap	(4,998,885)	(4,732,960)	(6,422,765)	1,417,733	4,794,999	12,942,816	(73,263)	2,927,675

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

Risk management

The Group's business activities comprise retail and commercial banking services. These activities expose the Group to a variety of financial risks, mainly interest rate risk, market risk, credit risk, liquidity risk and operational risk.

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

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

Interest rate risk management

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

Notes to Financial Statements

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

Interest rate risk exposures in the banking book:

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

Repricing risk is one of the sources of interest rate risk which arises from timing differences in interest rate changes and cash flows that occur in the repricing and maturity of fixed and floating rate assets, liabilities and off-balance sheet financial instruments. Should the interest rate increase/decrease by 200 basis points and the positive net interest gap be HK$3,288 million (2013: HK$2,507 million) up to 12 months in 2014, profit before tax in 2014 would increase/decrease by HK$71 million or 1.40% of equity (2013: HK$84 million or 1.71% of equity). Profit before tax would increase/decrease by HK$66 million or 1.31% of equity (2013: HK$49 million or 1.01% of equity) for the next 12 months after the reporting date.

Based on the positive net interest gap of HK$5,644 million (2013: HK$4,505 million) up to five years, the economic value would increase by HK$99 million (2013: HK$84 million).

Basis risk is one of the sources of interest rate risk which arises from the difference in the changes of interest rates earned and paid on different financial instruments with similar repricing characteristics. The Group adopts two stress-testing scenarios for the sensitivity analysis:

(i) Interest rates on managed-rate assets would decrease by 200 basis points whilst interest rates on other interest-bearing assets and interest-bearing liabilities would be kept unchanged. Based on this scenario assumption, profit before tax would decrease by HK$299 million or 5.93% of equity (2013: HK$278 million or 5.69% of equity) for the year ended 31 December 2014. Profit before tax would decrease by HK$311 million or 6.18% of equity (2013: HK$292 million or 5.97% of equity) for the next 12 months after the reporting date.

(ii) Interest rates on interest-bearing assets and liabilities, except for interest rates on fixed rate assets and managed-rate assets, would increase by 200 basis points. Based on this scenario assumption, profit before tax would decrease by HK$375 million or 7.45% of equity (2013: HK$352 million or 7.19% of equity) for the year ended 31 December 2014. Profit before tax would decrease by HK$384 million or 7.63% of equity (2013: HK$387 million or 7.90% of equity) for the next 12 months after the reporting date.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

The carrying amounts, or notional amounts if applicable, of financial instruments exposed to interest rate risk based on the earlier of maturity dates and contractual repricing as at 31 December 2014 and 2013 are detailed as follows:

Group

	2014							
	1 year or less HK$'000	Over 1 year but not more than 2 years HK$'000	Over 2 years but not more than 3 years HK$'000	Over 3 years but not more than 4 years HK$'000	Over 4 years but not more than 5 years HK$'000	Over 5 years HK$'000	Non-interest-bearing HK$'000	Total HK$'000
Assets:								
Fixed rate financial assets								
Cash and short term placements	3,177,762	–	–	–	–	–	803,507	3,981,269
Placements with banks and financial institutions maturing after one month but not more than twelve months	927,219	–	–	–	–	–	–	927,219
Loans and advances and receivables	2,481,544	996,197	537,334	218,066	53,155	4,438	128,338	4,419,072
Derivative financial instruments	–	–	–	–	–	–	2,170	2,170
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	3,797,671	499,341	263,081	210,914	80,701	–	–	4,851,708
	10,384,196	1,495,538	800,415	428,980	133,856	4,438	940,819	14,188,242
Floating rate financial assets								
Loans and advances and receivables	24,119,106	–	–	–	–	–	–	24,119,106
Held-to-maturity investments	100,000	–	–	–	–	–	–	100,000
	24,219,106	–	–	–	–	–	–	24,219,106
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	477,892	–	–	–	–	–	37,173	515,065
Customer deposits at amortised cost	23,668,125	498,337	3,693	242	–	–	–	24,170,397
Certificates of deposit issued at amortised cost	953,514	–	–	–	–	–	–	953,514
Derivative financial instruments	–	–	–	–	–	–	5,994	5,994
	25,099,531	498,337	3,693	242	–	–	43,167	25,644,970
Floating rate financial liabilities								
Customer deposits at amortised cost	5,806,109	–	–	–	–	–	1,678,980	7,485,089
Certificates of deposit issued at amortised cost	409,980	–	–	–	–	–	–	409,980
	6,216,089	–	–	–	–	–	1,678,980	7,895,069
Total interest sensitivity gap	3,287,682	997,201	796,722	428,738	133,856	4,438	(781,328)	4,867,309

Notes to Financial Statements

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

Bank

2014	1 year or less HK$'000	Over 1 year but not more than 2 years HK$'000	Over 2 years but not more than 3 years HK$'000	Over 3 years but not more than 4 years HK$'000	Over 4 years but not more than 5 years HK$'000	Over 5 years HK$'000	Non-interest-bearing HK$'000	Total HK$'000
Assets:								
Fixed rate financial assets								
Cash and short term placements	3,086,077	–	–	–	–	–	713,115	3,799,192
Placements with banks and financial institutions maturing after one month but not more than twelve months	927,219	–	–	–	–	–	–	927,219
Loans and advances and receivables	544,471	116,211	64,112	29,474	7,388	842	26,217	788,715
Derivative financial instruments	–	–	–	–	–	–	2,170	2,170
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	3,787,672	499,341	263,081	210,914	80,701	–	–	4,841,709
	8,345,439	615,552	327,193	240,388	88,089	842	748,306	10,365,809
Floating rate financial assets								
Loans and advances and receivables	22,699,032	–	–	–	–	–	29,453	22,728,485
Held-to-maturity investments	100,000	–	–	–	–	–	–	100,000
	22,799,032	–	–	–	–	–	29,453	22,828,485
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	937,892	–	–	–	–	–	151,616	1,089,508
Customer deposits at amortised cost	19,466,314	498,337	3,693	242	–	–	–	19,968,586
Certificates of deposit issued at amortised cost	953,514	–	–	–	–	–	–	953,514
Derivative financial instruments	–	–	–	–	–	–	5,994	5,994
	21,357,720	498,337	3,693	242	–	–	157,610	22,017,602
Floating rate financial liabilities								
Customer deposits at amortised cost	5,853,593	–	–	–	–	–	1,732,736	7,586,329
Certificates of deposit issued at amortised cost	409,980	–	–	–	–	–	–	409,980
	6,263,573	–	–	–	–	–	1,732,736	7,996,309
Total interest sensitivity gap	3,523,178	117,215	323,500	240,146	88,089	842	(1,112,587)	3,180,383

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

Group

	2013							
	1 year or less HK$'000	Over 1 year but not more than 2 years HK$'000	Over 2 years but not more than 3 years HK$'000	Over 3 years but not more than 4 years HK$'000	Over 4 years but not more than 5 years HK$'000	Over 5 years HK$'000	Non-interest-bearing HK$'000	Total HK$'000
Assets:								
Fixed rate financial assets								
Cash and short term placements	2,733,718	–	–	–	–	–	1,226,694	3,960,412
Placements with banks and financial institutions maturing after one month but not more than twelve months	1,195,991	–	–	–	–	–	–	1,195,991
Loans and advances and receivables	2,432,098	935,267	505,833	178,189	30,609	5,495	157,806	4,245,297
Derivative financial instruments	–	–	–	–	–	–	771	771
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	4,017,642	163,493	282,726	165,814	51,233	–	–	4,680,908
	10,379,449	1,098,760	788,559	344,003	81,842	5,495	1,392,075	14,090,183
Floating rate financial assets								
Loans and advances and receivables	22,890,355	–	–	–	–	–	31,506	22,921,861
Held-to-maturity investments	99,997	–	–	–	–	–	–	99,997
	22,990,352	–	–	–	–	–	31,506	23,021,858
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	458,848	–	–	–	–	–	24,553	483,401
Customer deposits at amortised cost	23,195,891	310,305	4,839	48	249	–	–	23,511,332
Certificates of deposit issued at amortised cost	454,942	–	–	–	–	–	–	454,942
Derivative financial instruments	–	–	–	–	–	–	610	610
	24,109,681	310,305	4,839	48	249	–	25,163	24,450,285
Floating rate financial liabilities								
Customer deposits at amortised cost	5,413,377	–	–	–	–	–	1,165,694	6,579,071
Certificates of deposit issued at amortised cost	1,339,550	–	–	–	–	–	–	1,339,550
	6,752,927	–	–	–	–	–	1,165,694	7,918,621
Total interest sensitivity gap	2,507,193	788,455	783,720	343,955	81,593	5,495	232,724	4,743,135

Notes to Financial Statements

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

Bank

	2013							
	1 year or less HK$'000	Over 1 year but not more than 2 years HK$'000	Over 2 years but not more than 3 years HK$'000	Over 3 years but not more than 4 years HK$'000	Over 4 years but not more than 5 years HK$'000	Over 5 years HK$'000	Non-interest-bearing HK$'000	Total HK$'000
Assets:								
Fixed rate financial assets								
Cash and short term placements	2,682,202	–	–	–	–	–	1,139,085	3,821,287
Placements with banks and financial institutions maturing after one month but not more than twelve months	1,195,991	–	–	–	–	–	–	1,195,991
Loans and advances and receivables	561,335	129,889	69,769	27,319	6,863	1,513	33,118	829,806
Derivative financial instruments	–	–	–	–	–	–	771	771
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	4,007,644	163,493	282,726	165,814	51,233	–	–	4,670,910
	8,447,172	293,382	352,495	193,133	58,096	1,513	1,179,778	10,525,569
Floating rate financial assets								
Loans and advances and receivables	21,720,318	–	–	–	–	–	31,506	21,751,824
Held-to-maturity investments	99,997	–	–	–	–	–	–	99,997
	21,820,315	–	–	–	–	–	31,506	21,851,821
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	1,098,847	–	–	–	–	–	157,433	1,256,280
Customer deposits at amortised cost	19,260,209	310,205	4,839	48	249	–	–	19,575,550
Certificates of deposit issued at amortised cost	454,942	–	–	–	–	–	–	454,942
Derivative financial instruments	–	–	–	–	–	–	610	610
	20,813,998	310,205	4,839	48	249	–	158,043	21,287,382
Floating rate financial liabilities								
Customer deposits at amortised cost	5,459,606	–	–	–	–	–	1,215,264	6,674,870
Certificates of deposit issued at amortised cost	1,339,550	–	–	–	–	–	–	1,339,550
	6,799,156	–	–	–	–	–	1,215,264	8,014,420
Total interest sensitivity gap	2,654,333	(16,823)	347,656	193,085	57,847	1,513	(162,023)	3,075,588

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

The table below summarises the effective average interest rates at 31 December for monetary financial instruments:

	Group		Bank	
	2014 Rate %	2013 Rate %	**2014 Rate %**	2013 Rate %
Assets				
Cash and short term placements	**1.27**	1.53	**1.29**	1.56
Placements with banks and financial institutions	**3.51**	3.19	**3.51**	3.19
Loans and advances and receivables (including trade bills)	**5.16**	5.27	**2.62**	2.55
Held-to-maturity investments	**1.34**	1.13	**1.34**	1.13
Liabilities				
Deposits and balances of banks and other financial institutions at amortised cost	**0.69**	0.63	**0.39**	0.30
Customer deposits at amortised cost	**1.27**	1.17	**1.21**	1.10
Certificates of deposit issued at amortised cost	**1.37**	1.09	**1.37**	1.09

Market risk management

(a) Currency risk

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

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

At 31 December 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 (2013: HK$6 million) mainly as a result of foreign exchange impact arising from net structural position of RMB denominated operating capital.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(b) Price risk

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

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

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

Credit risk management

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

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

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

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

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

Credit Committees of 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.

39. 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 18 to the 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.

Maximum credit exposures for off-balance sheet items without taking into account the fair value of collateral are as follows:

	Group		Bank	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Credit related contingent liabilities	**281,645**	236,653	**281,645**	236,653
Loan commitments and other credit related commitments	**4,406,010**	4,098,070	**4,295,950**	3,987,957

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 respective Boards. The respective Boards are responsible for exercising management oversight over the liquidity risk management framework of the respective companies.

ALCOs 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.

Notes to Financial Statements

39. 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 trigger point of liquidity ratio which is higher than the statutory liquidity ratio; cash flow mismatches under normal and different stressed scenarios; concentration related limits of deposits and other funding sources, and maturity profile of major assets and liabilities (including on-and-off-balance sheet items).

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 the contingency funding plan policy as part of business continuity planning, and contingency funding measures are in place to set priorities of funding arrangements with counterparties, to set procedures for intraday liquidity risk management and intragroup funding support, to manage media relationship and to communicate with internal and external parties during a liquidity crisis. The stress-testing results are updated and reported to senior management regularly and the results such as survival period for positive cashflow mismatches are used in contingency funding planning. Standby facilities and liquid assets are maintained to provide liquidity to meet unexpected and material cash outflows in stressed situations.

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

Notes to Financial Statements

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Maturity analysis of financial liabilities, based on the contractual undiscounted cash flows, is as follows:

Group

	2014							
	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**
Forward assets purchase	–	513	–	–	–	–	–	513
Forward forward deposits placed	–	33,639	219,440	–	–	–	–	253,079
Foreign currency contracts (gross)	–	665,020	4,676	–	–	–	–	669,696
Credit related contingent liabilities	37,379	36,989	36,538	151,057	19,584	98	–	281,645
Loan commitments and other credit related commitments	3,642,437	670,320	64,750	28,503	–	–	–	4,406,010
Customer deposits at amortised cost	7,342,263	10,146,255	11,026,444	2,768,636	513,625	–	–	31,797,223
Deposits and balances of banks and other financial institutions at amortised cost	37,174	328,521	50,138	100,374	–	–	–	516,207
Certificates of deposit issued at amortised cost	–	–	417,176	967,876	–	–	–	1,385,052
Other liabilities	–	108,599	–	–	–	–	161,371	269,970
	11,059,253	11,989,856	11,819,162	4,016,446	533,209	98	161,371	39,579,395

	2013							
	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
Forward assets purchase	–	2,970	–	–	–	–	–	2,970
Forward forward deposits placed	–	6,916	–	–	–	–	–	6,916
Foreign currency contracts (gross)	–	433,042	1,518	–	–	–	–	434,560
Credit related contingent liabilities	44,337	6,639	15,411	146,850	23,416	–	–	236,653
Loan commitments and other credit related commitments	3,264,506	630,823	75,338	11,574	115,829	–	–	4,098,070
Customer deposits at amortised cost	6,443,413	9,270,535	11,035,643	3,146,365	323,431	–	–	30,219,387
Deposits and balances of banks and other financial institutions at amortised cost	24,555	259,192	100,291	100,431	–	–	–	484,469
Certificates of deposit issued at amortised cost	–	–	204,483	1,197,671	417,197	–	–	1,819,351
Other liabilities	–	68,826	–	–	–	–	158,161	226,987
	9,776,811	10,678,943	11,432,684	4,602,891	879,873	–	158,161	37,529,363

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Bank

	2014							
	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**
Forward assets purchase	**–**	**513**	**–**	**–**	**–**	**–**	**–**	**513**
Forward forward deposits placed	**–**	**33,639**	**219,440**	**–**	**–**	**–**	**–**	**253,079**
Foreign currency contracts (gross)	**–**	**665,020**	**4,676**	**–**	**–**	**–**	**–**	**669,696**
Credit related contingent liabilities	**37,379**	**36,989**	**36,538**	**151,057**	**19,584**	**98**	**–**	**281,645**
Loan commitments and other credit related commitments	**3,642,437**	**560,260**	**64,750**	**28,503**	**–**	**–**	**–**	**4,295,950**
Customer deposits at amortised cost	**7,438,227**	**9,084,842**	**8,833,052**	**1,800,939**	**513,625**	**–**	**–**	**27,670,685**
Deposits and balances of banks and other financial institutions at amortised cost	**151,616**	**788,525**	**50,138**	**100,374**	**–**	**–**	**–**	**1,090,653**
Certificates of deposit issued at amortised cost	**–**	**–**	**417,176**	**967,876**	**–**	**–**	**–**	**1,385,052**
Other liabilities	**–**	**89,641**	**–**	**–**	**–**	**–**	**101,980**	**191,621**
	11,269,659	**11,259,429**	**9,625,770**	**3,048,749**	**533,209**	**98**	**101,980**	**35,838,894**

	2013							
	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
Forward assets purchase	–	2,970	–	–	–	–	–	2,970
Forward forward deposits placed	–	6,916	–	–	–	–	–	6,916
Foreign currency contracts (gross)	–	433,042	1,518	–	–	–	–	434,560
Credit related contingent liabilities	44,337	6,639	15,411	146,850	23,416	–	–	236,653
Loan commitments and other credit related commitments	3,264,506	520,710	75,338	11,574	115,829	–	–	3,987,957
Customer deposits at amortised cost	6,524,781	8,504,344	8,959,437	2,042,583	323,329	–	–	26,354,474
Deposits and balances of banks and other financial institutions at amortised cost	157,434	899,199	100,291	100,431	–	–	–	1,257,355
Certificates of deposit issued at amortised cost	–	–	204,483	1,197,671	417,197	–	–	1,819,351
Other liabilities	–	73,671	–	–	–	–	108,426	182,097
	9,991,058	10,447,491	9,356,478	3,499,109	879,771	–	108,426	34,282,333

Notes to Financial Statements

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Operational risk management

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

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

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.

	2014	2013
Group:		
Consolidated CET1 Capital Ratio	**16.7%**	17.0%
Consolidated Tier 1 Capital Ratio	**16.7%**	17.0%
Consolidated Total Capital Ratio	**17.9%**	18.1%
Bank:		
CET1 Capital Ratio	**13.9%**	13.9%
Tier 1 Capital Ratio	**13.9%**	13.9%
Total Capital Ratio	**15.1%**	15.1%

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital disclosures

The components of total capital base include the following items:

Group

	31 December 2014 HK$'000	31 December 2013 HK$'000
CET1 capital instruments	**2,854,045**	1,481,600
Share premium	**–**	1,372,445
Retained earnings	**1,555,030**	1,429,068
Disclosed reserves	**510,748**	498,537
CET1 capital before deduction	**4,919,823**	4,781,650
Deduct:		
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	**(24,339)**	(22,701)
Regulatory reserve for general banking risk	**(438,935)**	(410,145)
Goodwill	**(242,342)**	(242,342)
Deferred tax assets in excess of deferred tax liabilities	**(17,517)**	(22,273)
CET1 capital after deduction	**4,196,690**	4,084,189
Additional Tier 1 capital	**–**	–
Tier 1 capital after deductions	**4,196,690**	4,084,189
Reserve attributable to fair value gains	**10,953**	10,215
Regulatory reserve for general banking risk	**261,414**	245,450
Collective provisions	**18,923**	20,877
	280,337	266,327
Tier 2 capital	**291,290**	276,542
Capital base	**4,487,980**	4,360,731

Notes to Financial Statements

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital disclosures (Continued)

Bank

	Note	**31 December 2014 HK$'000**	31 December 2013 HK$'000
CET1 capital instruments	31	**2,854,045**	1,481,600
Share premium		**–**	1,372,445
Retained earnings		**1,682,924**	1,558,221
Disclosed reserves		**414,116**	416,665
CET1 capital before deduction		**4,951,085**	4,828,931
Deduct:			
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)		**(19,957)**	(18,248)
Regulatory reserve for general banking risk		**(342,303)**	(328,273)
Goodwill		**–**	–
Deferred tax assets in excess of deferred tax liabilities		**(8,859)**	(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		**2,879,968**	2,771,103
Additional Tier 1 capital		**–**	–
Tier 1 capital after deductions		**2,879,968**	2,771,103
Reserve attributable to fair value gains		**8,981**	8,212
Regulatory reserve for general banking risk		**225,714**	215,267
Collective provisions		**10,000**	10,000
		235,714	225,267
Tier 2 capital		**244,695**	233,479
Capital base		**3,124,663**	3,004,582

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital disclosures (Continued)

Capital adequacy ratios at 31 December 2014 and 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.

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:

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

Additional information

To comply with the Banking (Disclosure) Rules, the Group will present all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group's published financial statements under "Regulatory Disclosure" section on its website: www.publicbank.com.hk on or before 30 April 2015.

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.

Notes to Financial Statements

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital disclosures (Continued)

Group

Class of exposures	2014					
	Exposures*			Risk-weighted amounts		
	Rated# HK$'000	Unrated HK$'000	Total HK$'000	Rated HK$'000	Unrated HK$'000	Total HK$'000
On-balance sheet:						
Sovereign	2,156,034	–	2,156,034	–	–	–
Public sector entity	–	125,067	125,067	–	25,013	25,013
Bank	7,460,099	120,793	7,580,892	2,749,677	39,213	2,788,890
Securities firm	–	377,193	377,193	–	188,597	188,597
Corporate	75,250	6,377,609	6,452,859	75,250	6,377,609	6,452,859
Cash items	–	1,396,945	1,396,945	–	226,606	226,606
Regulatory retail	–	8,619,841	8,619,841	–	6,464,881	6,464,881
Residential mortgage loan	–	10,331,966	10,331,966	–	4,222,119	4,222,119
Other non-past due	–	1,685,215	1,685,215	–	1,781,458	1,781,458
Past due	–	50,485	50,485	–	73,296	73,296
Exposure subject to 1250% risk-weight	–	3,447	3,447	–	43,088	43,088
Off-balance sheet:						
OTC derivative transactions						
– foreign exchange contracts	–	483,792	483,792	–	151	151
Other off-balance sheet items	–	4,941,247	4,941,247	–	159,997	159,997
	9,691,383	34,513,600	44,204,983	2,824,927	19,602,028	22,426,955

Bank

Class of exposures	2014					
	Exposures*			Risk-weighted amounts		
	Rated# HK$'000	Unrated HK$'000	Total HK$'000	Rated HK$'000	Unrated HK$'000	Total HK$'000
On-balance sheet:						
Sovereign	2,146,034	–	2,146,034	–	–	–
Public sector entity	–	125,067	125,067	–	25,013	25,013
Bank	7,298,912	120,793	7,419,705	2,717,439	39,213	2,756,652
Securities firm	–	377,193	377,193	–	188,597	188,597
Corporate	75,250	6,358,476	6,433,726	75,250	6,358,476	6,433,726
Cash items	–	1,377,755	1,377,755	–	226,606	226,606
Regulatory retail	–	4,509,648	4,509,648	–	3,382,236	3,382,236
Residential mortgage loan	–	9,545,649	9,545,649	–	3,946,908	3,946,908
Other non-past due	–	1,589,266	1,589,266	–	1,670,344	1,670,344
Past due	–	16,667	16,667	–	23,772	23,772
Exposure subject to 1250% risk-weight	–	3,447	3,447	–	43,088	43,088
Off-balance sheet:						
OTC derivative transactions						
– foreign exchange contracts	–	483,792	483,792	–	151	151
Other off-balance sheet items	–	4,831,187	4,831,187	–	159,997	159,997
	9,520,196	29,338,940	38,859,136	2,792,689	16,064,401	18,857,090

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital disclosures (Continued)

Group

Class of exposures	2013 Exposures* Rated# HK$'000	Unrated HK$'000	Total HK$'000	Risk-weighted amounts Rated HK$'000	Unrated HK$'000	Total HK$'000
On-balance sheet:						
Sovereign	2,815,437	–	2,815,437	–	–	–
Public sector entity	–	156,904	156,904	–	31,381	31,381
Bank	6,877,242	94,611	6,971,853	2,371,068	34,364	2,405,432
Securities firm	–	152,132	152,132	–	76,066	76,066
Corporate	75,235	6,336,312	6,411,547	75,235	6,336,312	6,411,547
Cash items	–	1,218,031	1,218,031	–	179,429	179,429
Regulatory retail	–	8,344,628	8,344,628	–	6,258,471	6,258,471
Residential mortgage loan	–	9,853,529	9,853,529	–	4,137,698	4,137,698
Other non-past due	–	1,455,190	1,455,190	–	1,551,434	1,551,434
Past due	–	53,486	53,486	–	77,806	77,806
Exposure subject to 1250% risk-weight	–	3,447	3,447	–	43,088	43,088
Off-balance sheet:						
OTC derivative transactions – foreign exchange contracts	–	250,364	250,364	–	19	19
Other off-balance sheet items	–	4,344,609	4,344,609	–	133,783	133,783
	9,767,914	32,263,243	42,031,157	2,446,303	18,859,851	21,306,154

Bank

Class of exposures	2013 Exposures* Rated# HK$'000	Unrated HK$'000	Total HK$'000	Risk-weighted amounts Rated HK$'000	Unrated HK$'000	Total HK$'000
On-balance sheet:						
Sovereign	2,805,439	–	2,805,439	–	–	–
Public sector entity	–	156,904	156,904	–	31,381	31,381
Bank	6,760,846	94,611	6,855,457	2,347,789	34,364	2,382,153
Securities firm	–	152,132	152,132	–	76,066	76,066
Corporate	75,235	6,292,052	6,367,287	75,235	6,292,052	6,367,287
Cash items	–	1,197,648	1,197,648	–	179,429	179,429
Regulatory retail	–	4,587,622	4,587,622	–	3,440,717	3,440,717
Residential mortgage loan	–	9,194,349	9,194,349	–	3,906,985	3,906,985
Other non-past due	–	1,360,793	1,360,793	–	1,441,871	1,441,871
Past due	–	14,003	14,003	–	18,582	18,582
Exposure subject to 1250% risk-weight	–	3,447	3,447	–	43,088	43,088
Off-balance sheet:						
OTC derivative transactions – foreign exchange contracts	–	250,364	250,364	–	19	19
Other off-balance sheet items	–	4,234,497	4,234,497	–	133,783	133,783
	9,641,520	27,538,422	37,179,942	2,423,024	15,598,337	18,021,361

The Group did not enter into OTC derivative transactions other than foreign exchange contracts with counterparties during 2014 and 2013. The credit exposures attributed to such transactions were considered insignificant.

* Principal amount or credit equivalent amount, net of individual impairment allowances before and after credit risk mitigation.

\# Exposures are rated by the Bank's External Credit Assessment Institutions ("ECAI"), Moody's with ECAI issue specific ratings or with ECAI inferred ratings. Risk weights are determined based on ECAI ratings pursuant to the Capital Rules.

Notes to Financial Statements

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital disclosures (Continued)

2014

	Group		Bank	
	Risk-weighted exposures HK$'000	**Capital requirements/ charge HK$'000**	**Risk-weighted exposures HK$'000**	**Capital requirements/ charge HK$'000**
Credit risk	**22,426,955**	**1,794,156**	**18,857,090**	**1,508,567**
Credit risk – credit valuation adjustment	**500**	**40**	**500**	**40**
Market risk – foreign exchange exposures	**518,788**	**41,503**	**518,788**	**41,503**
Operational risk	**2,345,100**	**187,608**	**1,438,900**	**115,112**
Deductions	**(190,907)**	**–**	**(127,565)**	**–**
	25,100,436	**2,023,307**	**20,687,713**	**1,665,222**

2013

	Group		Bank	
	Risk-weighted exposures HK$'000	Capital requirements/ charge HK$'000	Risk-weighted exposures HK$'000	Capital requirements/ charge HK$'000
Credit risk	21,306,154	1,704,492	18,021,361	1,441,709
Credit risk – credit valuation adjustment	175	14	175	14
Market risk – foreign exchange exposures	568,363	45,469	568,363	45,469
Operational risk	2,341,450	187,316	1,445,938	115,675
Deductions	(177,181)	–	(123,042)	–
	24,038,961	1,937,291	19,912,795	1,602,867

For the years ended 31 December 2014 and 2013, the Group and the Bank have adopted the standardised approach for calculation of credit risk-weighted exposures and market risk-weighted exposures. The Group has adopted the basic indicator approach and the standardised approach for the calculation of operational risk-weighted exposures of the Bank and Public Finance respectively.

As at 31 December 2014 and 2013, the Bank had no securitisation and counterparty credit risk related exposures.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 15 January 2015.

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:

Group	31 December 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	597,767	244	58	104	78	570,348	95.4	373	373
Building and construction, property development and investment									
Property development	362,320	142	-	-	-	340,331	93.9	-	-
Property investment	6,230,289	2,443	-	209	-	5,876,317	94.3	3,351	3,351
Civil engineering works	116,439	55	-	624	616	26,125	22.4	-	-
Electricity and gas	728	-	-	-	-	728	100.0	-	-
Recreational activities	12,102	5	-	4	-	11,974	98.9	-	-
Information technology	33,761	13	-	1	-	5,288	15.7	-	-
Wholesale and retail trade	214,461	110	403	489	54	194,501	90.7	1,723	1,723
Transport and transport equipment	4,341,459	1,473	65	284	165	4,298,712	99.0	289	229
Hotels, boarding houses and catering	115,411	45	-	23	-	99,860	86.5	-	-
Financial concerns	383,092	150	-	31	-	177,662	46.4	-	-
Stockbrokers									
Margin lending	371,672	146	-	93	-	210,778	56.7	-	-
Others	5,000	2	-	2	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	93,840	37	-	27	-	59,015	62.9	-	-
Others	79,695	31	-	-	-	76,916	96.5	-	-
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	93,721	37	-	-	-	93,721	100.0	-	-
Loans for the purchase of other residential properties	8,081,223	2,883	-	496	-	8,081,223	100.0	3,359	2,352
Loans for credit card advances	12,940	5	-	232	328	-	-	-	-
Loans for other business purposes	22,310	9	-	3	-	22,310	100.0	-	-
Loans for other private purposes	3,865,855	8.937	74,381	395,997	410,571	219,838	5.7	105,789	70,530
Trade finance	1,029,935	404	5,033	2,633	-	781,688	75.9	10,066	10,066
Other loans and advances	91,882	36	-	2	-	83,577	91.0	-	-
Sub-total	26,155,902	17,207	79,940	401,254	411,812	21,230,912	81.2	124,950	88,624
Loans and advances for use outside Hong Kong	2,265,984	1,690	4,912	3,340	10,294	2,098,426	92.6	10,441	10,383
Total loans and advances (excluding trade bills and other receivables)	28,421,886	18,897	84,852	404,594	422,106	23,329,338	82.1	135,391	99,007

Supplementary Financial Information (Unaudited)

ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

Bank

31 December 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	589,471	231	58	61	-	570,248	96.7	373	373
Building and construction, property development and investment									
Property development	362,320	142	-	-	-	340,331	93.9	-	-
Property investment	6,228,204	2,441	-	207	-	5,874,232	94.3	3,351	3,351
Civil engineering works	107,233	42	-	394	393	26,125	24.4	-	-
Electricity and gas	728	-	-	-	-	728	100.0	-	-
Recreational activities	12,079	5	-	4	-	11,974	99.1	-	-
Information technology	33,761	13	-	1	-	5,288	15.7	-	-
Wholesale and retail trade	195,673	77	397	418	-	191,560	97.9	1,714	1,714
Transport and transport equipment	3,741,869	1,467	65	278	165	3,699,145	98.9	289	229
Hotels, boarding houses and catering	115,411	45	-	23	-	99,860	86.5	-	-
Financial concerns	383,092	150	-	31	-	177,662	46.4	-	-
Stockbrokers									
Margin lending	371,672	146	-	93	-	210,778	56.7	-	-
Others	5,000	2	-	2	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	93,840	37	-	27	-	59,015	62.9	-	-
Others	79,695	31	-	-	-	76,916	96.5	-	-
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	93,721	37	-	-	-	93,721	100.0	-	-
Loans for the purchase of other residential properties	7,336,072	2,876	-	489	-	7,336,072	100.0	1,007	-
Loans for credit card advances	12,940	5	-	232	328	-	-	-	-
Loans for other business purposes	22,310	9	-	3	-	22,310	100.0	-	-
Loans for other private purposes	289,211	113	3,674	5,648	5,776	179,885	62.2	3,674	1,430
Trade finance	1,029,935	404	5,033	2,633	-	781,688	75.9	10,066	10,066
Other loans and advances	91,882	36	-	2	-	83,577	91.0	-	-
Sub-total	21,196,119	8,309	9,227	10,546	6,662	19,841,115	93.6	20,474	17,163
Loans and advances for use outside Hong Kong	2,250,842	1,665	4,912	3,143	10,117	2,098,426	93.2	10,441	10,383
Total loans and advances (excluding trade bills and other receivables)	23,446,961	9,974	14,139	13,689	16,779	21,939,541	93.6	30,915	27,546

Supplementary Financial Information (Unaudited)

ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

Group	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

Supplementary Financial Information (Unaudited)

ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

Bank

	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	654,570	228	–	98	–	360,514	55.1	793	793
Building and construction, property development and investment									
Property development	448,901	157	–	–	–	279,412	62.2	–	–
Property investment	6,400,951	2,234	–	–	–	6,005,525	93.8	3,122	3,122
Civil engineering works	116,673	41	–	1	–	32,392	27.8	–	–
Electricity and gas	801	–	–	–	–	770	96.1	–	–
Recreational activities	2,451	1	–	–	–	2,301	93.9	–	–
Information technology	34,496	12	–	248	247	6,119	17.7	–	–
Wholesale and retail trade	160,658	56	–	–	–	154,431	96.1	–	–
Transport and transport equipment	3,792,723	1,324	99	61	228	3,752,450	98.9	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	6,839,339	2,387	–	–	–	6,839,339	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	281,412	98	4,710	7,638	4,508	142,084	50.5	4,710	1,094
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	20,429,807	7,130	9,933	13,438	5,094	18,798,175	92.0	26,468	22,356
Loans and advances for use outside Hong Kong	2,066,375	2,761	21,767	14,333	1,371	1,795,804	86.9	20,298	19,329
Total loans and advances (excluding trade bills and other receivables)	22,496,182	9,891	31,700	27,771	6,465	20,593,979	91.5	46,766	41,685

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

NON-BANK MAINLAND CHINA EXPOSURES

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

Group

Types of counterparties	On-balance sheet exposure HK$'million	Off-balance sheet exposure HK$'million	Total HK$'million
At 31 December 2014			
Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	344	–	344
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	1,390	201	1,591
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	19	–	19
Total	1,753	201	1,954
Total assets after provision	38,987		
On-balance sheet exposures as percentage of total assets	4.50%		

Bank

Types of counterparties	On-balance sheet exposure HK$'million	Off-balance sheet exposure HK$'million	Total HK$'million
At 31 December 2014			
Central government, central government-owned entities and their subsidiaries and JVs	344	–	344
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	1,390	201	1,591
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	4	–	4
Total	1,738	201	1,939
Total assets after provision	35,273		
On-balance sheet exposures as percentage of total assets	4.93%		

Supplementary Financial Information (Unaudited)

NON-BANK MAINLAND CHINA EXPOSURES (Continued)

Group

Types of counterparties	On-balance sheet exposure HK$'million	Off-balance sheet exposure HK$'million	Total HK$'million
At 31 December 2013			
Central government, central government-owned entities and their subsidiaries and JVs	342	–	342
Local governments, local government-owned entities and their subsidiaries and JVs	19	–	19
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	1,096	154	1,250
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	33	–	33
Total	1,490	154	1,644
Total assets after provision	37,619		
On-balance sheet exposures as percentage of total assets	3.96%		

Bank

Types of counterparties	On-balance sheet exposure HK$'million	Off-balance sheet exposure HK$'million	Total HK$'million
At 31 December 2013			
Central government, central government-owned entities and their subsidiaries and JVs	342	–	342
Local governments, local government-owned entities and their subsidiaries and JVs	19	–	19
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	1,096	154	1,250
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	25	–	25
Total	1,482	154	1,636
Total assets after provision	34,419		
On-balance sheet exposures as percentage of total assets	4.31%		

Note:

The analysis of non-bank Mainland China exposures is disclosed with reference to the Completion Instruction for the HKMA Return of Mainland Activities.

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**
At 31 December 2014				
Group				
1. Asia Pacific excluding Hong Kong, of which:	**4,981**	**316**	**633**	**5,930**
China	**3,004**	**316**	**473**	**3,793**
2. Western Europe*	**1,266**	**–**	**263**	**1,529**
Bank				
1. Asia Pacific excluding Hong Kong, of which:	**4,930**	**316**	**633**	**5,879**
China	**3,004**	**316**	**473**	**3,793**
2. Western Europe*	**1,266**	**–**	**263**	**1,529**

	Banks and other financial institutions HK$'million	Public sector entities HK$'million	Others HK$'million	Total HK$'million
At 31 December 2013				
Group				
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
Bank				
1. Asia Pacific excluding Hong Kong, of which:	4,656	423	679	5,758
China	2,244	423	506	3,173
Malaysia	885	–	43	928
2. Western Europe*, of which:	1,541	–	148	1,689
France	878	–	–	878

* There were no exposures to the five "PIIGs" countries namely Portugal, Italy, Ireland, Greece and Spain.

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 and the Bank are as follows:

Group and Bank

	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
At 31 December 2014						
USD	**4,186**	**3,583**	**65**	**587**	**81**	**–**
RMB	**478**	**582**	**–**	**–**	**(104)**	**623**
AUD	**977**	**1,083**	**120**	**17**	**(3)**	**–**
Others	**528**	**954**	**476**	**52**	**(2)**	**–**
	6,169	**6,202**	**661**	**656**	**(28)**	**623**

Group and Bank

	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
At 31 December 2013						
USD	2,951	2,599	53	378	27	–
RMB	445	516	–	2	(73)	640
Others	1,873	2,132	294	38	(3)	–
	5,269	5,247	347	418	(49)	640

LIQUIDITY RATIOS

	2014	2013
Average liquidity ratios:		
Group	**48.4%**	47.2%
Bank	**42.1%**	41.8%

The average liquidity ratios are computed on both solo basis and consolidated basis 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 year.

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.

Supplementary Financial Information (Unaudited)

DISCLOSURE OF THE REMUNERATION SYSTEM

Remuneration Committee

The Bank has established its Remuneration Committee with written terms of reference with effect from 1 January 2011 in compliance with the requirements of the SPM Module CG-5 on "Guideline on a Sound Remuneration System" (the "Remuneration Guideline") issued by the HKMA. As at 31 December 2014, there were six members in the Remuneration Committee and four of them were Independent Non-Executive Directors. The Remuneration Committee was chaired by Tan Sri Datuk Seri Utama Thong Yaw Hong, the Independent Non-Executive Co-Chairman of the Bank. The other members were Tan Sri Dato' Sri Tay Ah Lek, Mr. Quah Poh Keat, Mr. Lee Chin Guan, Mr. Tang Wing Chew and Mr. Lai Wan.

The Remuneration Committee meets at least once a year to review and make recommendations to the Board of the Bank on the overall remuneration policy (the "Remuneration Policy"), specific remuneration packages and compensation arrangement relating to the termination of their office or appointment of Directors, Chief Executive, senior management and key personnel, and for the formulation of the Remuneration Policy applicable to all employees of the Bank and its subsidiaries other than Public Finance and its subsidiaries.

A meeting was held in 2014. The attendance of each member in 2014 is set out below:

Name of members	Number of meetings attended in 2014	Attendance rate
Tan Sri Datuk Seri Utama Thong Yaw Hong, Chairman	1/1	100%
Tan Sri Dato' Sri Tay Ah Lek	1/1	100%
Mr. Quah Poh Keat	1/1	100%
Mr. Lee Chin Guan	1/1	100%
Mr. Tang Wing Chew (appointed on 1 March 2014)	1/1	100%
Mr. Lai Wan (appointed on 1 March 2014)	1/1	100%

Supplementary Financial Information (Unaudited)

DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

Remuneration Committee (Continued)

During the year, Directors' fees, movement of senior officials, 2014 annual salary review, allocation of discretionary bonus and annual review of the Remuneration Policy and system in compliance with the Remuneration Guideline of the HKMA were reviewed and noted.

Remuneration of the Directors, Chief Executive, senior management and key personnel is determined by reference to factors including the level of workload, responsibilities and commitments, performance and remuneration packages. No individual Director or any of his associate is involved in deciding his own remuneration.

The scales of Directors' fees of the Bank for 2014 and 2013 are outlined as follows:

	2014 Range	2013 Range
Chairman/Co-Chairman	**HK$60,000 – HK$102,500**	HK$60,000 – HK$102,500
Other Directors	**HK$25,000 – HK$92,500**	HK$25,000 – HK$92,500

No remuneration was paid to members of the Remuneration Committee for 2014 and 2013 except the aforesaid Directors' fees.

Design and structure of the remuneration processes

The Board of the Bank oversees the formulation, maintenance and implementation of the Remuneration Policy.

The Remuneration Committee of the Bank reviews and recommends the remuneration packages of key senior management personnel of the Group (excluding Public Finance and its subsidiaries which had established their own Remuneration Committee and adopted their own Remuneration Policy) in accordance with the authorities and responsibilities as stipulated in its terms of reference to the Board of the Bank for approval.

The Remuneration Committee of the Bank also works closely with the Human Resources Committee, Audit Committee and other dedicated committees and departments to (i) review if there are any material non-compliance issues in relation to internal policy and statutory requirements and make adjustments to payments of remuneration whenever necessary, and (ii) decide upon the appraisal system which fairly measures the performance of each key personnel, and make changes to the system when necessary to meet the changing needs of the Bank.

Remuneration review is submitted to the Board of the Bank by the Remuneration Committee for approval each year.

Regular compliance monitoring is imposed to review the management and operation of the remuneration system.

Human Resources Department continues to take initiatives on all human resources matters while Human Resources Committee continues to function in accordance with its terms of reference.

Discussions and recommendations related to employees at managerial level made in the meetings of Human Resources Committee are submitted to the Group Human Resources Committee of Public Bank, the ultimate holding company of the Bank, and where appropriate, to the Remuneration Committee of the Bank for endorsement while discussions and decisions related to non-managerial employees made in the meetings are normally noted in the Board Executive Committee of the Bank.

Supplementary Financial Information (Unaudited)

DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

The Remuneration Policy of the Bank Group

The Bank adopted the Remuneration Policy in compliance with the Remuneration Guideline in December 2010. The Remuneration Policy covers the Bank (including branches and representative offices of the Bank located outside Hong Kong) and its subsidiaries which are subject to the HKMA's consolidated supervision except Public Finance, Public Financial Limited and Public Securities Limited (the "Bank Group"), which have their own remuneration policy. The Remuneration Policy was initiated by the Human Resources Committee and approved by the Board. The Human Resources Committee also reviews and keeps abreast of the legal and regulatory requirements from time to time, and liaises with risk control units including risk management, financial management and compliance functions to strike a balance among sufficient staff motivation, sound remuneration packages and prudent risk management. Any findings and recommendations to be incorporated into the Remuneration Policy will be put forth to the Remuneration Committee for consideration. Having discussed and agreed upon at the Remuneration Committee, the revisions to the Remuneration Policy will be recommended to the Board for approval.

The Bank's Remuneration Policy encourages employee behavior that supports the Bank's risk tolerance, risk management framework and long-term financial soundness. The policy is established and implemented in line with the objectives, business strategies and long-term goals of the Bank and formulated in a way that will not encourage excessive risks taking by employees but allows the Bank to attract and retain employees with relevant skills, knowledge and expertise to discharge their specific functions. The Bank has considered the risks, including market risk, credit risk, liquidity risk and operational risk, when implementing the remuneration measures, which are closely monitored by various management committees and working groups. The Bank considers and reviews the audit reports and various kinds of performance reports to take account of these risks in the remuneration process. Audit reports cover information on asset quality, credit risk management and operational risk management whilst performance reports state various kinds of business performance indicators such as delinquent rate, net impairment ratio, customer deposit, business growth, etc., which are useful for identification of current and future risks. The employees' performances in controlling these current and future risks are linked with their remuneration rewards. The Board will take the overall performance of the Bank Group, risk management, market trends, and other non-financial measures when deciding the performance bonus pool. This will be adjusted as and when the Bank considers appropriate. There is no change of remuneration measures over the past year.

Basically, the remuneration package consists of fixed and variable remuneration which are offered in cash. Fixed remuneration refers to basic salary, the year end double pay, and other fixed income while variable remuneration refers to discretionary bonus, sales commission and other variable income. The remuneration packages are determined by taking into consideration the evaluation of the job's responsibilities and contribution, the market pay levels for benchmark positions, and employee's performance. The level of remuneration and the proportion of variable remuneration to fixed remuneration of senior management and key personnel are linked to their level of responsibility undertaken and contribution to business performance and enhancements of efficiency and effectiveness of operations.

When the amount of variable remuneration payout exceeds a predetermined percentage or amount of the annual fixed remuneration of the employee, a deferment period of 3 years will be imposed in order to align the incentive awards to be granted to an individual employee with the long-term value creation and the time horizons of risk. The deferred remuneration will be vested gradually over the 3-year deferment period and no faster than on a pro-rata basis. To conform to the spirit of the Remuneration Guideline and not to undermine the risk management advantage by applying deferment of variable remuneration, if there is any deferred remuneration, hedging exposures in respect of the unvested portion of deferred remuneration by any trading, investment or other financial activities will be restricted.

Supplementary Financial Information (Unaudited)

DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

The Remuneration Policy of the Bank Group (Continued)

Subject to the decision of the Remuneration Committee in accordance with the internal guidelines, the deferred remuneration will be forfeited and/or clawed back when it is later established that the data on which the performance measurement for a particular year was based is subsequently proven to have been manifestly misstated; or it is later established that the employee concerned has committed fraud or other malfeasance, or violated any legislation, code or internal control policies of the Bank Group; or there has been a significant downward restatement of the financial performance of the Bank Group; or the employment of the employee is terminated.

The award of variable remuneration to the senior management, key personnel and risk taking employees is subject to the aforesaid deferral mechanism which will be reviewed by the Remuneration Committee at least annually and subject to change when necessary.

The remuneration of the employees within the risk control function, including those performing accounts, audit, compliance and credit management functions etc., is determined by the performance of individual employees and is independent of the business they oversee. The performance factors of the appraisees in carrying out their core job responsibilities under their respective job functions are assessed in the performance appraisals. Appropriate remuneration will be recommended based on the results of the appraisals annually.

The Bank uses a comprehensive performance measurement framework that incorporates both financial and non-financial performance in determining the size and allocation of variable remuneration. The financial metrics link the variable remuneration to the profits, revenue and other performance measures of the Bank as a whole, and the contribution of business units or departments and an individual employee to the Bank as well. The applicable and material risks associated with the activities of employees, the cost and quantity of capital required to support the risks taken, and the cost and quantity of liquidity risk in the conduct of business are also taken into consideration. The non-financial metrics capture the performance on qualitative aspects such as the compliance with risk management policies, adherence to legal, regulatory and ethical standards; customer satisfaction; and effectiveness and efficiency of supporting operations. Given the importance in both financial achievements and non-financial factors, poor performance will result in reduction of or elimination to the variable remuneration. Adverse performance in non-financial factors will override outstanding financial achievement, and thus, the employee's performance can be assessed comprehensively.

Annual review of remuneration system and policy

An annual review of the remuneration system and the Remuneration Policy of the Bank Group was conducted by the Remuneration Committee at the end of 2014. The review concludes that the remuneration system and Remuneration Policy are consistent with the principles set out in the Remuneration Guideline.

DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

Remuneration of senior management and key personnel

The aggregate quantitative information on remuneration for the Bank's senior management (including the two Executive Directors who also hold the positions of Chief Executive and Alternative Chief Executive respectively) and key personnel is set out below.

(i) The amount of remuneration for the financial years 2014 and 2013, split into fixed and variable remuneration and paid in cash, and number of beneficiaries were:

2014
Remuneration for senior management*:

Fixed remuneration		Variable remuneration		
Non-deferred	**Deferred**	**Non-deferred**	**Deferred**	**No. of beneficiaries**
HK$8,908,117	**Nil**	**HK$2,921,698**	**Nil**	**6**

* Senior management comprises Chief Executive, two Alternate Chief Executives, Senior Deputy General Manager, Financial Controller and Head of Treasury

Remuneration for key personnel#:

Fixed remuneration		Variable remuneration		
Non-deferred	**Deferred**	**Non-deferred**	**Deferred**	**No. of beneficiaries**
HK$9,040,303	**Nil**	**HK$1,997,897**	**Nil**	**11**

\# Key personnel comprises individual employees whose duties or activities in the course of employment involve the assumption of material risk or the taking on material exposures on behalf of the Bank Group and the key personnel within risk control functions

2013
Remuneration for senior management*:

Fixed remuneration		Variable remuneration		
Non-deferred	Deferred	Non-deferred	Deferred	No. of beneficiaries
HK$8,214,263	Nil	HK$2,723,448	Nil	6

* Senior management comprises Chief Executive, two Alternate Chief Executives, Senior Deputy General Manager, Financial Controller and Head of Treasury

Remuneration for key personnel#:

Fixed remuneration		Variable remuneration		
Non-deferred	Deferred	Non-deferred	Deferred	No. of beneficiaries
HK$9,401,316	Nil	HK$2,098,476	Nil	11

\# Key personnel comprises individual employees whose duties or activities in the course of employment involve the assumption of material risk or the taking on material exposures on behalf of the Bank Group and the key personnel within risk control functions

(ii) The amount of variable remuneration for the financial years 2014 and 2013 was paid in cash. No variable remuneration in shares or share-linked instruments was granted.

(iii) There was no deferred remuneration awarded, paid out and reduced through performance adjustments and there was no outstanding deferred remuneration during the financial years 2014 and 2013.

(iv) No senior management or key personnel had been awarded new sign-on or severance payments or paid guaranteed bonuses during the financial years 2014 and 2013.

Supplementary Financial Information (Unaudited)

CORPORATE GOVERNANCE

The Bank is committed to high standards of corporate governance and complies with the guidelines issued by the HKMA in the SPM Module CG-1 on "Corporate Governance of Locally Incorporated Authorised Institutions" in material aspects. To accomplish this, the Bank exercises corporate governance through the following Committees:

1. Board Executive Committee

Board Executive Committee consists of Executive and Non-Executive Directors and is responsible for the management of the businesses of the Bank in all aspects and the implementation of strategic business plans and policies approved and formulated by the Board. The minutes of Board Executive Committee meetings are tabled to the Board for noting. The present members comprise Tan Sri Dato' Sri Dr. Teh Hong Piow (Chairman of Board Executive Committee), Tan Sri Dato' Sri Tay Ah Lek, Mr. Quah Poh Keat, Dato'Chang Kat Kiam, Mr. Tan Yoke Kong and Mr. Chong Yam Kiang.

2. Risk Management Committee

Risk Management Committee is responsible for overseeing the overall management of all risks covering market risk management, liquidity risk management, credit risk management and operational risk management. It reviews and approves risk management policies and risk tolerance limits, to assess adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively. It also conducts review of the compliance functions to ensure the resources are adequate and independence of Compliance Department. The minutes of Risk Management Committee meetings are tabled to the Board for noting and further action, where appropriate. The members of Risk Management Committee shall be appointed by the Board from amongst the Non-Executive Directors of the Bank and shall consist of not less than three members. The present members comprise Tan Sri Datuk Seri Utama Thong Yaw Hong (Chairman of Risk Management Committee), Tan Sri Dato' Sri Tay Ah Lek, Mr. Quah Poh Keat, Dato' Chang Kat Kiam, Mr. Lee Chin Guan, Mr. Tang Wing Chew and Mr. Lai Wan.

3. Audit Committee

Audit Committee reviews internal control issues identified by Internal Audit Department, external auditors, regulatory authorities and management, and evaluates the adequacy and effectiveness of the Group's risk management and internal control systems. It also conducts review of the internal audit functions with particular emphasis on the scope of audits, quality of internal audits and independence of Internal Audit Department. The minutes of Audit Committee meetings are tabled to the Board for noting and further action, where appropriate. The Chief Executive and Head of Internal Audit normally attend the meetings. The members of Audit Committee shall be appointed by the Board from amongst the Non-Executive Directors of the Bank and shall consist of not less than three members. The present members comprise Tan Sri Datuk Seri Utama Thong Yaw Hong (Chairman of Audit Committee), Tan Sri Dato' Sri Tay Ah Lek, Mr. Quah Poh Keat, Mr. Lee Chin Guan, Mr. Tang Wing Chew and Mr. Lai Wan.

Supplementary Financial Information (Unaudited)

CORPORATE GOVERNANCE (Continued)

4. Remuneration Committee

Remuneration Committee is responsible for reviewing and recommending to the Board the overall Remuneration Policy and remuneration packages of Directors, Chief Executive, senior management and key personnel, and the Remuneration Policy applicable to all employees of the Bank Group. The members of Remuneration Committee comprise Non-Executive Directors appointed by the Board, and the majority of them shall be Independent Non-Executive Directors. The present members comprise Tan Sri Datuk Seri Utama Thong Yaw Hong (Chairman of Remuneration Committee), Tan Sri Dato' Sri Tay Ah Lek, Mr. Quah Poh Keat, Mr. Lee Chin Guan, Mr. Tang Wing Chew and Mr. Lai Wan.

5. Management Committee

Management Committee is established by the Board to ensure the effectiveness of the daily operations and that the operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved. It comprises the Chief Executive, Alternate Chief Executive, Senior Deputy General Manager, Deputy General Manager, Head of Treasury, Head of Branch Banking, Head of Credit and Financial Controller.

6. Credit Committee

Credit Committee is responsible for making decisions on applications for all types of credit facilities within its limits set out in the Credit Policy and in particular, monitoring the lending portfolio for managing the overall credit risk of the Bank. It comprises the Chief Executive, Alternate Chief Executive, Senior Deputy General Manager, Head of Branch Banking, Head of Credit, Head of Credit Analysis and Credit Manager.

7. Assets and Liabilities Management Committee

Assets and Liabilities Management Committee reviews and assesses the risk profile and consolidated statement of financial position structure of the Bank, sets out the objectives for the assets and liabilities management function and implements relevant risk management strategy. This is monitored and managed within a framework of approved policies and limits, and is reported regularly to the Risk Management Committee. Assets and Liabilities Management Committee comprises the Chief Executive, two Alternate Chief Executives, Head of Treasury, Financial Controller and Risk Manager.

8. Human Resources Committee

Human Resources Committee assists the Board in formulating and implementing human resources policies including staff recruitment, promotion, career development, performance appraisal and remuneration package of all staff. Human Resources Committee comprises the Chief Executive, two Alternate Chief Executives, Senior Deputy General Manager and Head of Human Resources.

9. Information Technology Steering Committee

Information Technology Steering Committee is responsible for establishing policies and strategies for the computerisation of the Bank, recommending to the Board on major acquisitions of computer hardware and software, and monitoring the progress of the implementation of all information technology related projects. Information Technology Steering Committee comprises the Chief Executive, Alternate Chief Executive, Heads of Business Units, Head of Internal Audit, Heads of Operations, Financial Controller and Head of Information Technology.

10. Finance Committee

Finance Committee assists the Board in the financial planning and budgeting process of the business of the Bank and the review of the business performance, medium-term financial strategic business plan, statutory and half-year accounts. Finance Committee comprises the Chief Executive, Alternate Chief Executive, Senior Deputy General Manager, Head of Branch Banking, Head of Credit and Financial Controller.

Supplementary Financial Information (Unaudited)

CORPORATE GOVERNANCE (Continued)

11. Operational Risk Management Committee

Operational Risk Management Committee is responsible for the implementation of the operational risk management framework approved by the Board, and the development of specific policies, processes and procedures for managing operational risk in the material products, activities, processes and systems. It comprises the Chief Executive, Alternate Chief Executive, Head of Information Technology, Heads of Operations, Financial Controller and Risk Manager.

12. Anti-money Laundering and Counter Terrorist Financing ("AML") and Compliance Committee

AML and Compliance Committee is responsible for overseeing Compliance Department to carry out compliance functions, including prevention of money laundering and terrorist financing and providing guidance on compliance related issues raised by Compliance Department or other units of the Bank. It comprises the Chief Executive, two Alternate Chief Executives, Senior Deputy General Manager, Financial Controller and Head of Compliance.

13. Credit Risk Management Committee

Credit Risk Management Committee is responsible for establishing the framework for identifying, measuring, monitoring and controlling credit risk of the existing and new products, and approving credit risk management policies and credit risk tolerable limits as and when necessary. It comprises the Chief Executive, two Alternate Chief Executives, Financial Controller and Risk Manager.

14. Business Strategy Steering Committee

Business Strategy Steering Committee is responsible for establishing effective business strategies to meet corporate goals and objectives taking into account operating conditions in the market and formulating strategic business plans to achieve growth and return, efficiency and competitive advantage in the financial industry. It comprises the Chief Executive, two Alternate Chief Executives, Senior Deputy General Manager, Financial Controller, Head of Treasury and Heads of Business Units.

15. Business Continuity Committee

Business Continuity Committee is responsible for managing the overall formulation, implementation and maintenance of the Business Resumption Continuity Plan ("BRCP") of the Bank. It plans for BRCP testing at least once a year and ensures the necessary measures for BRCP are taken for meeting the regulatory and business requirements. It comprises the Chief Executive, Alternate Chief Executive, Senior Deputy General Manager, Deputy General Manager, Head of Branch Banking, Head of Information Technology, Head of Credit, Head of Human Resources, Heads of Operations, Head of General Affairs, Financial Controller and Head of Internal Audit.