PUBLIC BANK (HONG KONG) LIMITED

Interim Financial Statements
for the six months ended 30 June 2018

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

INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The Board of Directors (the "Board") of Public Bank (Hong Kong) Limited (the "Bank") is pleased to announce the unaudited condensed consolidated results of the Bank and its subsidiaries (the "Group") for the six months ended 30 June 2018 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	**For the six months ended 30 June** **2018** **(Unaudited)** **HK$'000**	2017 (Unaudited) HK$'000
Interest income	7	**900,605**	851,338
Interest expense	7	**(180,370)**	(174,419)
NET INTEREST INCOME		**720,235**	676,919
Other operating income	8	**112,234**	105,539
OPERATING INCOME		**832,469**	782,458
Operating expenses	9	**(437,724)**	(422,334)
Changes in fair value of investment properties		**2,116**	2,122
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES/IMPAIRMENT ALLOWANCES		**396,861**	362,246
Credit loss expenses/impairment allowances	10	**(84,629)**	(74,539)
PROFIT BEFORE TAX		**312,232**	287,707
Tax	11	**(55,833)**	(52,375)
PROFIT FOR THE PERIOD		**256,399**	235,332
ATTRIBUTABLE TO:			
Owners of the Bank		**256,399**	235,332

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT FOR THE PERIOD	**256,399**	235,332
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations, net of tax	**(16,831)**	39,271
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**239,568**	274,603
ATTRIBUTABLE TO:		
Owners of the Bank	**239,568**	274,603

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000
ASSETS			
Cash and short term placements	13	**3,669,350**	4,871,536
Placements with banks and financial institutions maturing after one month but not more than twelve months	14	**1,359,540**	1,514,095
Derivative financial instruments	28	**1,767**	4,317
Loans and advances and receivables	15	**29,500,629**	29,304,483
Available-for-sale financial assets	16	**-**	6,804
Equity investments at fair value through other comprehensive income	16	**6,804**	-
Held-to-maturity investments	17	**-**	5,671,749
Held-to-collect debt securities at amortised cost	17	**4,721,334**	-
Deferred tax assets		**41,687**	24,062
Tax recoverable		**3**	3
Intangible assets	19	**718**	718
Property and equipment	20	**90,111**	87,414
Land held under finance leases	21	**149,513**	100,820
Investment properties	22	**61,058**	111,692
Goodwill		**242,342**	242,342
Other assets	18	**207,626**	253,368
TOTAL ASSETS		**40,052,482**	42,193,403
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**536,235**	1,123,792
Derivative financial instruments	28	**6,985**	1,696
Customer deposits at amortised cost	23	**33,269,891**	34,094,775
Certificates of deposit issued at amortised cost		**-**	753,293
Current tax payable		**62,348**	39,568
Deferred tax liabilities		**13,020**	12,629
Other liabilities	18	**424,574**	450,746
TOTAL LIABILITIES		**34,313,053**	36,476,499

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK			
Share capital	24	**2,854,045**	2,854,045
Reserves	25	**2,885,384**	2,862,859
TOTAL EQUITY		**5,739,429**	5,716,904
TOTAL EQUITY AND LIABILITIES		**40,052,482**	42,193,403

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		For the six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'000
TOTAL EQUITY			
As at 1 January (Reported)		**5,716,904**	5,366,177
Impact of adopting HKFRS 9	5	**(92,233)**	-
Restated opening balance under HKFRS 9		**5,624,671**	5,366,177
Profit for the period		**256,399**	235,332
Other comprehensive income in translation reserve		**(16,831)**	39,271
Total comprehensive income for the period		**239,568**	274,603
Dividends paid in respect of previous year	12(b)	**(124,810)**	(97,815)
Balance at the end of the period		**5,739,429**	5,542,965

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	For the six months ended 30 June 2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**312,232**	287,707
Adjustments for:			
Dividend income from listed investments	8	**(73)**	(45)
Dividend income from unlisted investments	8	**(700)**	(700)
Depreciation of property and equipment and land held under finance leases	9	**12,267**	11,265
Increase in fair value of investment properties		**(2,116)**	(2,122)
Increase in credit loss expenses for loans and advances and receivables		**1,412**	-
Decrease in impairment allowances for loans and advances and receivables		**-**	(34,685)
Net losses on disposal of property and equipment		**1**	68
Decrease in provisions for held-to-collect debt securities at amortised cost and bank placements		**(229)**	-
Exchange differences		**(16,833)**	39,455
Profits tax paid		**(32,021)**	(16,895)
Operating profit before changes in operating assets and liabilities		**273,940**	284,048
Decrease in operating assets:			
Decrease/(increase) in placements with banks and financial institutions		**951,224**	(207,511)
Decrease/(increase) in derivative financial instruments		**2,550**	(9,192)
(Increase)/decrease in loans and advances and receivables		**(306,864)**	278,038
Decrease in held-to-maturity investments		**-**	278,537
Decrease in held-to-collect debt securities at amortised cost		**1,102,471**	-
Decrease/(increase) in other assets		**45,742**	(46,644)
		1,795,123	293,228
Decrease in operating liabilities:			
Decrease in deposits and balances of banks and other financial institutions at amortised cost		**(587,557)**	(391,418)
(Decrease)/increase in customer deposits at amortised cost		**(824,884)**	531,305
Decrease in certificates of deposit issued at amortised cost		**(753,293)**	(319,933)
Increase/(decrease) in derivative financial instruments		**5,289**	(21,490)
Decrease in other liabilities		**(26,172)**	(66,992)
		(2,186,617)	(268,528)
Net cash (outflow)/inflow from operating activities		**(117,554)**	308,748

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the six months ended 30 June 2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	20	**(10,908)**	(8,001)
Dividends received from listed investments		**73**	45
Dividends received from unlisted investments		**700**	700
Net cash outflow from investing activities		**(10,135)**	(7,256)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on shares		**(124,810)**	(97,815)
Net cash outflow from financing activities		**(124,810)**	(97,815)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(252,499)**	203,677
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**4,548,402**	5,328,007
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**4,295,903**	5,531,684
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand		**1,086,659**	958,769
Money at call and short notice with an original maturity within three months		**2,405,667**	3,957,998
Placements with banks and financial institutions with an original maturity within three months		**429,362**	594,928
Held-to-maturity investments with an original maturity within three months		**-**	19,989
Held-to-collect debt securities at amortised cost with an original maturity within three months		**374,215**	-
		4,295,903	5,531,684
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		**(170,448)**	(165,686)
Interest received		**914,334**	848,771

NOTES TO INTERIM FINANCIAL STATEMENTS

1. CORPORATE AND GROUP 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 period, the Group's principal activities were the provision of a comprehensive range of commercial and retail banking, financial and related services.

The Bank is a wholly-owned subsidiary of Public Financial Holdings Limited. In the opinion of the Directors, the ultimate holding company of the Bank is Public Bank Berhad, which is incorporated in Malaysia.

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

Name	Issued ordinary share capital HK$	Percentage of equity attributable to the Bank Direct %	Indirect %	Principal activities
Public Financial Securities Limited	48,000,000	100	-	Securities brokerage
Public Bank (Nominees) Limited	100,000	100	-	Provision of nominee services
Public Credit Limited	5,000,000	100	-	Dormant
Public Futures Limited	2	100	-	Dormant
Public Pacific Securities Limited	12,000,000	100	-	Dormant
Public Finance Limited	671,038,000	100	-	Deposit-taking and financing
Public Financial Limited	10,100,000	-	100	Investment holding
Public Securities Limited	10,000,000	-	100	Securities brokerage
Public Securities (Nominees) Limited	10,000	-	100	Provision of nominee services

NOTES TO INTERIM FINANCIAL STATEMENTS

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in compliance with the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the "HKMA") and in accordance with the same accounting policies adopted in the Group's 2017 Annual Report, except for the changes in accounting policies as set out in note 5 below.

The interim financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group's 2017 Annual Report.

The financial information relating to the year ended 31 December 2017 that is included in the 2018 interim financial statements as comparative information does not constitute the Bank's statutory annual consolidated audited financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the statutory financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Bank's external auditors have reported on those financial statements. The Independent Auditor's Report was unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

3. BASIS OF CONSOLIDATION

The interim condensed consolidated financial statements include the interim financial statements of the Bank and its subsidiaries for the period ended 30 June 2018.

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:

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

(ii) rights arising from other contractual arrangements; and

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

3. BASIS OF CONSOLIDATION (Continued)

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

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

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

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

The subsidiaries consolidated for accounting purpose are as follows:

	30 June 2018		31 December 2017		
Name	**Total assets (Unaudited) HK$**	**Total equity (Unaudited) HK$**	Total assets (Audited) HK$	Total equity (Audited) HK$	**Principal activities**
Public Financial Securities Limited	**71,798,707**	**48,110,595**	103,843,341	48,110,117	Securities brokerage
Public Bank (Nominees) Limited	**100,000**	**100,000**	100,000	100,000	Provision of nominee services
Public Credit Limited	**2,471,985**	**2,471,985**	2,471,985	2,471,985	Dormant
Public Futures Limited	**1**	**1**	1	1	Dormant
Public Pacific Securities Limited	**4,807,098**	**4,807,098**	4,779,023	4,779,023	Dormant
Public Finance Limited*	**6,621,742,004**	**1,364,670,782**	6,601,374,396	1,448,519,857	Deposit-taking and financing
Public Financial Limited	**10,101,371**	**10,101,371**	10,101,371	10,101,371	Investment holding
Public Securities Limited	**198,458,449**	**165,493,793**	234,291,502	159,911,431	Securities brokerage
Public Securities (Nominees) Limited	**1,122,441**	**1,121,191**	1,130,805	1,128,305	Provision of nominee services

* The financial entity specified by the HKMA to form the basis of consolidation for regulatory reporting purpose in respect of common equity tier 1 ("CET1") capital ratio, tier 1 capital ratio, total capital ratio, capital conservation buffer ("CCB") ratio, countercyclical capital buffer ("CCyB") ratio, leverage ratio and liquidity maintenance ratio.

4. BASIS OF CAPITAL DISCLOSURES

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

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

The computation of the consolidated total capital ratio and other regulatory capital ratios of the Group is based on consolidation of the Bank and Public Finance Limited ("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 CET1 capital and is included in the capital base pursuant to the HKMA capital requirements.

The Group has adopted the provisions of the Banking (Amendment) Ordinance 2012 relating to the Basel III capital standards and the amended Banking (Capital) Rules (the "Capital Rules"). The Capital Rules outline the general requirements on regulatory capital ratios, the components of eligible regulatory capital as well as the levels of those ratios at which banking institutions are required to operate. The Capital Rules have been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision. Under the Capital Rules, the minimum capital ratio requirements are progressively increased during the period from 1 January 2013 to 1 January 2019, and include a phased introduction of a CCB ratio of 2.5%. Additional capital requirements, including a CCyB ratio ranging from 0% to 2.5%, have been implemented since 1 January 2016. The required CCyB ratio for 2018 is 1.875%.

NOTES TO INTERIM FINANCIAL STATEMENTS

5. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are generally effective for accounting periods beginning on or after 1 January 2018. The Group has adopted the following new and revised standards for the first time for the current year's financial statements.

• Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
• Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
• HKFRS 9	*Financial Instruments*
• HKFRS 15	*Revenue from Contracts with Customers*
• Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
• Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28
• Amendments to HKAS 40	*Transfers of Investment Property*
• HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*

Except for the amendments included in Amendments to HKFRS 2, Amendments to HKFRS 4 and Annual Improvements 2014-2016 Cycle, which are not relevant to the preparation of the Group's interim condensed consolidated financial statements, the nature and impact of the amendments are described below.

The Group has adopted HKFRS 9 on 1 January 2018. HKFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting which have resulted in the following significant changes in accounting policies.

The Group has not restated comparative information for 2017 for financial instruments in the scope of HKFRS 9. Therefore, the comparative information for 2017 is reported under HKAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of HKFRS 9 have been recognised directly in retained earnings, provisions/impairment allowances, deferred tax assets and other relevant statement of financial position items as of 1 January 2018.

Except for certain trade receivables, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs under HKFRS 9.

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

Under HKFRS 9, debt financial instruments are subsequently measured at FVPL, amortised cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's financial assets are as follows:

a) Debt instruments at amortised cost for financial assets – that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's cash and placements with banks and financial institutions, loans and advances and receivables, held-to-collect debt securities at amortised cost and other assets.

b) Equity investments at FVOCI – with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity investments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity investments as equity investments at FVOCI. Equity investments at FVOCI are not subject to an impairment assessment under HKFRS 9. Under HKAS 39, the Group's unquoted equity investments were classified as available-for-sale financial assets.

c) Financial assets at FVPL – include derivative instruments and debt instruments of which the cash flow characteristics fail the SPPI criterion or they are not held within a business model with objective either to collect contractual cash flows, or to both collect contractual cash flows and sell; and equity investments which the Group has not irrevocably elected, at initial recognition or transition, to classify as FVOCI. This category includes derivative financial instruments held by the Group.

d) Debt instruments at FVOCI – with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. The Group does not have any financial assets classified in this category.

The assessment of the Group's business model was made as of the date of initial application, i.e. 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the income statement.

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities in non-financial host contracts has not been changed from that required by HKAS 39.

Changes to the provisions/impairment allowances calculation

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. HKFRS 9 requires the Group to record provisions/impairment allowances for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowances are based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired, the allowances are based on the change in the ECLs over the life of the asset.

For other receivables, cash and placements with banks and financial institutions and held-to-collect debt securities at amortised cost, the Group has applied the standard simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic conditions.

For loan and advances, trade bills, accrued interests, loan commitments and financial guarantee contracts, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

In all cases, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of HKFRS 9 resulted in increase in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to retained profits.

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

The transition effects arising from the adoption of HKFRS 9 are presented as below.

The following tables analyse the impact, net of tax, of transition to HKFRS 9 on the statement of financial position of the Group.

	1 January 2018 HK$'000
Cash and short term placements	
Closing balance under HKAS 39 at 31 December 2017	4,871,536
- Recognition of expected credit loss under HKFRS 9	**(470)**
Opening balance under HKFRS 9 at 1 January 2018	**4,871,066**
Placements with banks and financial institutions	
Closing balance under HKAS 39 at 31 December 2017	1,514,095
- Recognition of expected credit loss under HKFRS 9	**(151)**
Opening balance under HKFRS 9 at 1 January 2018	**1,513,944**
Held-to-collect debt securities at amortised cost	
Closing balance under HKAS 39 at 31 December 2017	-
- Reclassification under HKFRS 9	**5,671,749**
- Recognition of expected credit loss under HKFRS 9	**(570)**
Opening balance under HKFRS 9 at 1 January 2018	**5,671,179**
Equity investments at fair value through other comprehensive income	
Closing balance under HKAS 39 at 31 December 2017	-
- Reclassification under HKFRS 9	**6,804**
Opening balance under HKFRS 9 at 1 January 2018	**6,804**
Loans and advances and receivables	
Closing balance under HKAS 39 at 31 December 2017	29,304,483
- Recognition of expected credit loss under HKFRS 9	**(109,308)**
Opening balance under HKFRS 9 at 1 January 2018	**29,195,175**

NOTES TO INTERIM FINANCIAL STATEMENTS

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

	1 January 2018 **HK$'000**
Deferred tax assets	
Closing balance under HKAS 39 at 31 December 2017	24,062
- Deferred tax effect arising from the recognition of expected credit loss under HKFRS 9	**18,266**
Opening balance under HKFRS 9 at 1 January 2018	**42,328**
Regulatory reserves	
Closing balance under HKAS 39 at 31 December 2017	439,762
- Transfer to retained profits	**(127,143)**
Opening balance under HKFRS 9 at 1 January 2018	**312,619**
Retained profits	
Closing balance under HKAS 39 at 31 December 2017	2,343,377
- Transfer from regulatory reserves	**127,143**
- Recognition of expected credit loss under HKFRS 9	**(110,499)**
- Deferred tax effect arising from the recognition of expected credit loss under HKFRS 9	**18,266**
Opening balance under HKFRS 9 at 1 January 2018	**2,378,287**

NOTES TO INTERIM FINANCIAL STATEMENTS

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

Statement of Financial Position	31 December 2017 HK$'000	**Reclassification HK$'000**	**Provisions/ impairment allowances HK$'000**	**1 January 2018 HK$'000**
Assets				
Cash and short term placements	4,871,536	-	**(470)**	**4,871,066**
Placements with banks and financial institutions maturing after one month but not more than twelve months	1,514,095	-	**(151)**	**1,513,944**
Derivative financial instruments	4,317	-	-	**4,317**
Loans and advances and receivables	29,304,483	-	**(109,308)**	**29,195,175**
Available-for-sale financial assets	6,804	**(6,804)**	-	-
Equity investments at fair value through other comprehensive income	-	**6,804**	-	**6,804**
Held-to-maturity investments	5,671,749	**(5,671,749)**	-	-
Held-to-collect debt securities at amortised cost	-	**5,671,749**	**(570)**	**5,671,179**
Deferred tax assets	24,062	-	**18,266**	**42,328**
Tax recoverable	3	-	-	**3**
Intangible assets	718	-	-	**718**
Property and equipment	87,414	-	-	**87,414**
Land held under finance leases	100,820	-	-	**100,820**
Investment properties	111,692	-	-	**111,692**
Goodwill	242,342	-	-	**242,342**
Other assets	253,368	-	-	**253,368**
Total Assets	42,193,403	-	**(92,233)**	**42,101,170**

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

Statement of Financial Position	31 December 2017 HK$'000	Provisions/ impairment allowances HK$'000	1 January 2018 HK$'000
Equity and Liabilities			
Liabilities			
Deposits and balances of banks and other financial institutions at amortised cost	1,123,792	-	**1,123,792**
Derivative financial instruments	1,696	-	**1,696**
Customer deposits at amortised cost	34,094,775	-	**34,094,775**
Certificates of deposit issued at amortised cost	753,293	-	**753,293**
Current tax payable	39,568	-	**39,568**
Deferred tax liabilities	12,629	-	**12,629**
Other liabilities	450,746	-	**450,746**
Total Liabilities	36,476,499	-	**36,476,499**
Equity attributable to owners of the Bank			
Share capital	2,854,045	-	**2,854,045**
Reserves	2,862,859	**(92,233)**	**2,770,626**
Total Equity	5,716,904	**(92,233)**	**5,624,671**
Total Equity and Liabilities	42,193,403	**(92,233)**	**42,101,170**

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The adoption of HKFRS 15 does not have any material impact on the Group's consolidated financial statements.

Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

HK(IFRIC)-Int 22 clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expenses or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions of each payment or receipt of advance consideration. The Interpretation does not have any impact on the Group's consolidated financial statements.

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs

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

- Amendments to HKFRS 9 — *Prepayment Features with Negative Compensation*[1]
- HKFRS 16 — *Leases*[1]
- HK(IFRIC)-Int 23 — *Uncertainty over Income Tax Treatment*[1]

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

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

The HKICPA issued two amendments to HKFRS 9 in November 2017 and December 2017 respectively. The first amendment clarifies that prepayable financial assets with negative compensation can be measured at amortised cost or at FVOCI if specified conditions are met instead of at FVPL.

The second amendment clarifies, in the Basis for Conclusions, the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in derecognition. HKFRS 9 requires an entity to recalculate the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. Any adjustments to the amortised cost of the financial liability would be recognised in profit or loss at the date of the modification or exchange. If entities apply a different accounting treatment for modifications of financial liabilities under HKAS 39, they are required to apply the amendments retrospectively on transition to HKFRS 9.

The amendments are effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

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

Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. As at 30 June 2018, the Group had non-cancellable operating lease commitments of HK$146,569,000 as set out in note 27(b) to the interim financial statements. The interest expense on the lease liability and the depreciation expense on the right-of-use asset under HKFRS 16 will replace the rental charge under HKAS 17. The operating lease commitments as shown in off-balance sheet item will be replaced by “right-of-use asset” and “lease liability” in the statement of financial position of the Group. Other than the above, the Group does not anticipate that the application of this standard will have material impact on the consolidated financial statements of the Group.

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

HK(IFRIC)-Int 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of HKAS 12 and does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

(i) whether an entity considers uncertain tax treatments separately;

(ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities;

(iii) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and

(iv) how an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply this Interpretation from its effective date. The Group expects that applying the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

6. SEGMENT INFORMATION

Operating segment information

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

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

- 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.

NOTES TO INTERIM FINANCIAL STATEMENTS

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table discloses the revenue and profit information for operating segments for the six months ended 30 June 2018 and 30 June 2017.

	Retail and commercial banking businesses For the six months ended 30 June		Wealth management services, stockbroking and securities management For the six months ended 30 June		Other businesses For the six months ended 30 June		Total For the six months ended 30 June	
	2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000	**2018 (Unaudited) HK$'000**	2017 (Unaudited) HK$'000	**2018 (Unaudited) HK$'000**	2017 (Unaudited) HK$'000	**2018 (Unaudited) HK$'000**	2017 (Unaudited) HK$'000
Segment revenue								
External:								
Net interest income/(expense)	**720,280**	676,962	**(45)**	(43)	**-**	-	**720,235**	676,919
Other operating income:								
Net fees and commission income	**75,739**	73,829	**25,716**	17,267	**-**	-	**101,455**	91,096
Others	**6,206**	9,874	**(1)**	8	**4,574**	4,561	**10,779**	14,443
Operating income	**802,225**	760,665	**25,670**	17,232	**4,574**	4,561	**832,469**	782,458
Operating profit after credit loss expense/impairment allowances before tax	**293,291**	275,971	**13,191**	5,964	**5,750**	5,772	**312,232**	287,707
Tax							**(55,833)**	(52,375)
Profit for the period							**256,399**	235,332
Other segment information								
Depreciation of property and equipment and land held under finance leases	**(12,267)**	(11,265)	**-**	-	**-**	-	**(12,267)**	(11,265)
Changes in fair value of investment properties	**-**	-	**-**	-	**2,116**	2,122	**2,116**	2,122
Credit loss expenses/ impairment allowances	**(84,629)**	(74,539)	**-**	-	**-**	-	**(84,629)**	(74,539)
Net losses on disposal of property and equipment	**(1)**	(68)	**-**	-	**-**	-	**(1)**	(68)

NOTES TO INTERIM FINANCIAL STATEMENTS

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table discloses certain asset and liability information regarding operating segments as at 30 June 2018 and 31 December 2017.

	Retail and commercial banking businesses		**Wealth management services, stockbroking and securities management**		**Other businesses**		**Total**	
	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000
Segment assets other than intangible assets and goodwill	**39,403,304**	41,443,857	**303,370**	370,729	**61,058**	111,692	**39,767,732**	41,926,278
Intangible assets	**-**	-	**718**	718	**-**	-	**718**	718
Goodwill	**242,342**	242,342	**-**	-	**-**	-	**242,342**	242,342
Segment assets	**39,645,646**	41,686,199	**304,088**	371,447	**61,058**	111,692	**40,010,792**	42,169,338
Unallocated assets:								
Deferred tax assets and tax recoverable							**41,690**	24,065
Total assets							**40,052,482**	42,193,403
Segment liabilities	**34,148,840**	36,261,448	**85,435**	159,502	**3,410**	3,352	**34,237,685**	36,424,302
Unallocated liabilities:								
Deferred tax liabilities and tax payable							**75,368**	52,197
Total liabilities							**34,313,053**	36,476,499
Other segment information								
Additions to non-current assets – capital expenditure	**10,908**	18,361	**-**	-	**-**	-	**10,908**	18,361

6. SEGMENT INFORMATION (Continued)

Geographical information

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

The following table discloses the segment revenue information for geographical segments for the six months ended 30 June 2018 and 30 June 2017.

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Segment revenue from external customers:		
Hong Kong	**765,434**	719,220
Mainland China	**67,035**	63,238
	832,469	782,458

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

The following table discloses the non-current assets information for geographical segments as at 30 June 2018 and 31 December 2017.

	30 June 2018	31 December 2017
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Non-current assets:		
Hong Kong	**527,459**	526,001
Mainland China	**16,283**	16,985
	543,742	542,986

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

Operating income or revenue from major customers

Operating income or revenue from transactions with each external customer amounts to less than 10% (2017: less than 10%) of the Group's total operating income or revenue**.**

7. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**794,811**	758,244
Short term placements and placements with banks	**64,500**	56,291
Held-to-maturity investments	**-**	36,803
Held-to-collect debt securities at amortised cost	**41,294**	-
	900,605	851,338
Interest expense on:		
Deposits from banks and financial institutions	**4,264**	4,092
Deposits from customers	**175,959**	170,201
Bank loans	**147**	126
	180,370	174,419

Interest income and interest expense for the six months ended 30 June 2018, calculated using the effective interest method for financial assets and financial liabilities which are not designated at FVPL, amounted to HK$900,605,000 and HK$180,370,000 (2017: HK$851,338,000 and HK$174,419,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2018 amounted to HK$3,335,000 (2017: HK$5,774,000).

8. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Fees and commission income:		
Retail and commercial banking	**76,409**	74,484
Wealth management services, stockbroking and securities management	**25,716**	17,267
	102,125	91,751
Less: Fees and commission expenses	**(670)**	(655)
Net fees and commission income	**101,455**	91,096
Gross rental income	**4,592**	4,579
Less: Direct operating expenses	**(18)**	(18)
Net rental income	**4,574**	4,561
Gains less losses arising from dealing in foreign currencies	**10,056**	512
Net (losses)/gains on derivative financial instruments	**(5,218)**	7,937
	4,838	8,449
Dividend income from listed investments	**73**	45
Dividend income from unlisted investments	**700**	700
Net losses on disposal of property and equipment	**(1)**	(68)
Others	**595**	756
	112,234	105,539

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

There were no net gains or losses arising from available-for-sale financial assets, held-to-maturity investments, loans and advances and receivables, financial assets and liabilities measured at amortised cost and financial assets and liabilities designated at FVPL for the six months ended 30 June 2017. There were no net gains or losses arising from equity investments at FVOCI, loans and advances and receivables, financial assets and liabilities measured at amortised cost and financial assets and liabilities designated at FVPL for the six months ended 30 June 2018.

All fees and commission income and expenses are related to financial assets or financial liabilities which are not designated at FVPL. No fees and commission income and expenses are related to trust and other fiduciary activities.

9. OPERATING EXPENSES

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Staff costs:		
Salaries and other staff costs	**256,590**	245,729
Pension contributions	**11,856**	10,287
Less: Forfeited contributions	**(8)**	(6)
Net contribution to retirement benefit schemes	**11,848**	10,281
	268,438	256,010
Other operating expenses:		
Operating lease rentals on leasehold buildings	**32,998**	32,314
Depreciation of property and equipment and land held under finance leases	**12,267**	11,265
Administrative and general expenses	**37,637**	37,383
Others	**86,384**	85,362
Operating expenses before changes in fair value of investment properties	**437,724**	422,334

As at 30 June 2018 and 30 June 2017, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The credits for the period ended 30 June 2018 and 30 June 2017 arose in respect of staff who left the schemes during the periods.

10. CREDIT LOSS EXPENSES/IMPAIRMENT ALLOWANCES

The following table shows the changes in ECL on financial instruments for the period recorded in the consolidated income statement.

	For the six months ended 30 June 2018 (Unaudited)				
	12 months expected credit loss (Stage 1) HK$'000	**Lifetime expected credit loss not credit impaired (Stage 2) HK$'000**	**Lifetime expected credit loss credit impaired (Stage 3) HK$'000**	**Lifetime expected credit loss not credit impaired under simplified approach HK$'000**	**Total HK$'000**
Net charge for/(write-back of) credit loss expenses :					
- loans and advances	**(9)**	**338**	**84,427**	**-**	**84,756**
- trade bills, accrued interest and receivables	**66**	**(5)**	**63**	**-**	**124**
- cash and short term placements	**-**	**-**	**-**	**(118)**	**(118)**
- placements with banks and financial institutions	**-**	**-**	**-**	**(15)**	**(15)**
- held-to-collect debt securities at amortised cost	**-**	**-**	**-**	**(96)**	**(96)**
- loan commitment	**(21)**	**-**	**-**	**-**	**(21)**
- financial guarantee	**(1)**	**-**	**-**	**-**	**(1)**
	35	**333**	**84,490**	**(229)**	**84,629**

	For the six months ended 30 June 2017 (Unaudited)		
	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
Net charge for/(write-back of) impairment losses and allowances:			
- loans and advances	79,601	(2,738)	76,863
- trade bills, accrued interest and receivables	(2,047)	(277)	(2,324)
	77,554	(3,015)	74,539
Of which:			
- new impairment losses and allowances (including any amount directly written off during the period)			151,577
- releases and recoveries			(77,038)
Net charge to the consolidated income statement			74,539

11. TAX

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current tax charge :		
Hong Kong	**43,132**	36,229
Overseas	**11,669**	9,178
Under-provision in prior periods	**-**	426
Deferred tax charge, net	**1,032**	6,542
	55,833	52,375

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

	For the six months ended 30 June 2018 (Unaudited)					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**261,073**		**51,159**		**312,232**	
Tax at the applicable tax rate	**43,077**	**16.5**	**12,790**	**25.0**	**55,867**	**17.9**
Estimated tax effect of net (income)/expenses that is/are not (taxable)/deductible	**(36)**	**-**	**7**	**-**	**(29)**	**-**
Estimated tax losses from previous periods utilised	**(5)**	**-**	**-**	**-**	**(5)**	**-**
Adjustments in respect of current tax of previous periods	**-**	**-**	**-**	**-**	**-**	**-**
Tax charge at the Group's effective rate	**43,036**	**16.5**	**12,797**	**25.0**	**55,833**	**17.9**

11. TAX (Continued)

	For the six months ended 30 June 2017 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	236,861		50,846		287,707	
Tax at the applicable tax rate	39,082	16.5	12,711	25.0	51,793	18.0
Estimated tax effect of net expenses that are not deductible	158	0.1	10	-	168	0.1
Estimated tax losses from previous periods utilised	(12)	-	-	-	(12)	-
Adjustments in respect of current tax of previous periods	-	-	426	0.9	426	0.1
Tax charge at the Group's effective rate	39,228	16.6	13,147	25.9	52,375	18.2

12. DIVIDENDS

(a) Dividends attributable to the interim period

	For the six months ended 30 June			
	2018 (Unaudited) HK$ per ordinary share	2017 (Unaudited) HK$ per ordinary share	**2018 (Unaudited) HK$'000**	2017 (Unaudited) HK$'000
Interim dividend	**8.391**	7.803	**124,321**	115,609

The interim dividend was declared after the interim period and had not been recognised as a liability at the end of the interim period.

12. DIVIDENDS (Continued)

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

	For the six months ended 30 June			
	2018 (Unaudited) HK$ per ordinary share	2017 (Unaudited) HK$ per ordinary share	**2018 (Unaudited) HK$'000**	2017 (Unaudited) HK$'000
Final dividend in respect of the previous year	**8.424**	6.602	**124,810**	97,815

13. CASH AND SHORT TERM PLACEMENTS

	Note	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000
Cash on hand		**156,123**	139,087
Placements with banks and financial institutions		**930,536**	1,037,457
Money at call and short notice		**2,583,043**	3,694,992
Gross cash and short term placements		**3,669,702**	4,871,536
Less: Provisions/impairment allowances for bank placements:			
As at 31 December 2017 (Reported)		**-**	-
Impact of adopting HKFRS 9	5	**(470)**	-
Restated opening balance under HKFRS 9 as at 1 January 2018		**(470)**	-
Provisions released to the consolidated income statement during the period/year		**118**	-
		(352)	-
Cash and short term placements		**3,669,350**	4,871,536

Over 90% (31 December 2017: over 90%) of the placements were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's Investor Service ("Moody's"), an external credit agency.

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

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

	Note	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000
Gross placements with banks and financial institutions		**1,359,676**	1,514,095
Less: Provisions/impairment allowances for placements with banks and financial institutions:			
As at 31 December 2017 (Reported)		**-**	-
Impact of adopting HKFRS 9	5	**(151)**	-
Restated opening balance under HKFRS 9 as at 1 January 2018		**(151)**	-
Provisions released to the consolidated income statement during the period/year		**15**	-
		(136)	-
Placements with banks and financial institutions		**1,359,540**	1,514,095

Over 90% (31 December 2017: over 90%) of the placements maturing after one month but not more than twelve months were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's.

There were no overdue or rescheduled placements with banks and financial institutions maturing after one month but not more than twelve months and no specific provisions/impairment allowances for such placements accordingly.

NOTES TO INTERIM FINANCIAL STATEMENTS

15. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Loans and advances to customers	**29,575,877**	29,270,390
Trade bills	**37,783**	33,958
Loans and advances, and trade bills	**29,613,660**	29,304,348
Accrued interest	**77,208**	77,855
	29,690,868	29,382,203
Other receivables	**454**	2,255
Gross loans and advances and receivables	**29,691,322**	29,384,458
Less: Provisions/impairment allowances		
- specifically assessed	**(54,188)**	(71,084)
- collectively assessed	**(136,505)**	(8,891)
	(190,693)	(79,975)
Loans and advances and receivables	**29,500,629**	29,304,483

Over 90% (31 December 2017: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (31 December 2017: 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.

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

Loans and advances and receivables are summarised as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Neither past due nor impaired loans and advances and receivables	**29,003,862**	28,694,288
Past due but not impaired loans and advances and receivables	**544,766**	555,135
Credit impaired loans and advances	**141,908**	133,360
Credit impaired receivables	**786**	1,675
Gross loans and advances and receivables	**29,691,322**	29,384,458

About 61% (31 December 2017: about 62%) of "Neither past due nor impaired loans and advances and receivables" were property mortgage loans and hire purchase loans secured by properties, taxi licences, public light bus licences and vehicles.

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Gross amount HK$'000	**Percentage of total loans and advances %**	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	**64,789**	**0.22**	56,869	0.20
One year or less but over six months	**6,812**	**0.02**	4,158	0.01
Over one year	**1,633**	**0.01**	14,459	0.05
Loans and advances overdue for more than three months	**73,234**	**0.25**	75,486	0.26
Rescheduled loans and advances overdue for three months or less	**56,086**	**0.19**	47,436	0.16
Impaired loans and advances overdue for three months or less	**12,588**	**0.04**	10,438	0.04
Total overdue and impaired loans and advances	**141,908**	**0.48**	133,360	0.46

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**258**	117
One year or less but over six months	**234**	152
Over one year	**155**	1,243
Trade bills, accrued interest and other receivables overdue for more than three months	**647**	1,512
Impaired trade bills, accrued interest and other receivables overdue for three months or less	**139**	163
Total overdue and impaired trade bills, accrued interest and other receivables	**786**	1,675

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

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2018 (Unaudited)			31 December 2017 (Audited)		
	Hong Kong HK$'000	**Mainland China HK$'000**	**Total HK$'000**	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	**71,458**	**2,423**	**73,881**	62,993	14,005	76,998
Specific provisions based on lifetime expected credit loss/ individual impairment allowances	**39,454**	**1**	**39,455**	42,093	-	42,093
Collective impairment allowances	**N/A**	**N/A**	**N/A**	-	1	1
Current market value and fair value of collateral			**58,471**			43,344
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**140,271**	**2,423**	**142,694**	117,242	17,793	135,035
Specific provisions based on lifetime expected credit loss/ individual impairment allowances	**54,187**	**1**	**54,188**	71,084	-	71,084
Collective impairment allowances	**N/A**	**N/A**	**N/A**	1	2	3
Current market value and fair value of collateral			**88,483**			61,493

Over 90% (31 December 2017: over 90%) of the Group's gross loans and advances and receivables were derived from operations carried out in Hong Kong. Accordingly, no geographical segment information of gross loans and advances and receivables is presented herein.

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**58,471**	43,344
Covered portion of overdue loans and advances	**20,451**	21,390
Uncovered portion of overdue loans and advances	**52,783**	54,096

The assets taken as collateral should satisfy the following criteria:

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

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

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

(d) Repossessed assets

As at 30 June 2018, the total value of repossessed assets of the Group amounted to HK$2,900,000 (31 December 2017: HK$2,940,000).

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Gross amount HK$'000	**Percentage of total loans and advances %**	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for three months or less	**542,753**	**1.84**	552,640	1.89
Trade bills, accrued interest and other receivables overdue for three months or less	**2,013**		2,495	

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2018 (Unaudited)			
	12 months expected credit loss (Stage 1) HK$'000	Lifetime expected credit loss not credit impaired (Stage 2) HK$'000	Lifetime expected credit loss credit impaired (Stage 3) HK$'000	Total HK$'000
As at 31 December 2017 (Reported)				79,975
Impact of adopting HKFRS 9				**109,308**
Restated opening balance under HKFRS 9 as at 1 January 2018	**103,097**	**33,042**	**53,144**	**189,283**
New loans/financing originated	**52,776**	**-**	**19**	**52,795**
Loans/financing derecognised or repaid during the period (other than write-offs)	**(48,775)**	**(3,893)**	**(69,552)**	**(122,220)**
Transfer to 12 months expected credit loss (Stage 1)	**2,258**	**(140)**	**(2,118)**	**-**
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	**(2,216)**	**2,439**	**(223)**	**-**
Transfer to lifetime expected credit loss credit impaired (Stage 3)	**(4,183)**	**(24,033)**	**28,216**	**-**
Total transfer between stages	**(4,141)**	**(21,734)**	**25,875**	**-**
Impact on period expected credit loss of exposures transferred between stages during the period	**-**	**25,960**	**109,981**	**135,941**
Movements due to changes in credit risk	**175**	**-**	**18,168**	**18,343**
Recoveries	**-**	**-**	**65,559**	**65,559**
Write-offs	**-**	**-**	**(149,006)**	**(149,006)**
Exchange differences	**(2)**	**-**	**-**	**(2)**
As at 30 June 2018	**103,130**	**33,375**	**54,188**	**190,693**
Deducted from:				
Loans and advances	**101,232**	**33,369**	**54,071**	**188,672**
Trade bills, accrued interest and other receivables	**1,898**	**6**	**117**	**2,021**
	103,130	**33,375**	**54,188**	**190,693**

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2017 (Audited)		
	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
As at 1 January 2017	113,607	12,310	125,917
Amounts written off	(329,286)	-	(329,286)
Impairment losses and allowances charged to the consolidated income statement	302,054	161	302,215
Impairment losses and allowances released to the consolidated income statement	(149,758)	(3,624)	(153,382)
Net charge/(release) of impairment losses and allowances to the consolidated income statement	152,296	(3,463)	148,833
Loans and advances and receivables recovered	134,302	-	134,302
Exchange difference	165	44	209
As at 31 December 2017	71,084	8,891	79,975
Deducted from:			
Loans and advances	71,016	8,799	79,815
Trade bills, accrued interest and other receivables	68	92	160
	71,084	8,891	79,975

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(g) Finance lease receivables

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

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Minimum lease payments HK$'000	**Present value of minimum lease payments HK$'000**	Minimum lease payments HK$'000	Present value of minimum lease payments HK$'000
Amounts receivable under finance leases:				
Within one year	**384,468**	**277,690**	367,741	269,973
In the second to fifth years, inclusive	**1,181,214**	**824,487**	1,103,310	779,899
Over five years	**4,362,594**	**3,616,928**	4,009,209	3,336,063
	5,928,276	**4,719,105**	5,480,260	4,385,935
Less: Unearned finance income	**(1,209,171)**		(1,094,325)	
Present value of minimum lease payment receivables	**4,719,105**		4,385,935	

The Group has entered into finance lease arrangements with customers in respect of motor vehicles and equipment. The terms of the finance leases entered into range from 1 to 25 years.

16. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE FINANCIAL ASSETS

Below is an analysis of the Group's equity investments other than those measured at FVPL:

	Note	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000
Unlisted equity investments in corporate entity, at fair value:			
At the beginning and the end of the period/year		**6,804**	6,804
Available-for-sale financial assets	5	-	6,804
Equity investments at fair value through other comprehensive income	5	**6,804**	-

The unlisted investments issued by corporate entity are measured at fair value based on the present value of expected cash flows in the foreseeable future.

17. HELD-TO-COLLECT DEBT SECURITIES AT AMORTISED COST/HELD-TO-MATURITY INVESTMENTS

	Note	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000
Certificates of deposit held		**1,631,045**	2,190,411
Treasury bills and government bonds (including Exchange Fund Bills)		**1,735,236**	1,664,246
Other debt securities		**1,355,527**	1,817,092
Gross held-to-collect debt securities at amortised cost/ held-to-maturity investment		**4,721,808**	5,671,749
Less: Provisions/impairment allowances for held-to-collect debt securities at amortised cost:			
As at 31 December 2017 (Reported)		**-**	-
Impact of adopting HKFRS 9	5	**(570)**	-
Restated opening balance under HKFRS 9 as at 1 January 2018		**(570)**	-
Provisions released to the consolidated income statement during the period/year		**96**	-
		(474)	-
Held-to-maturity investments	5	**-**	5,671,749
Held-to-collect debt securities at amortised cost	5	**4,721,334**	-
Listed or unlisted:			
- Listed in Hong Kong		**1,416,870**	1,601,770
- Listed outside Hong Kong		**106,999**	30,390
- Unlisted		**3,197,939**	4,039,589
		4,721,808	5,671,749
Analysed by types of issuers:			
- Central governments		**1,735,236**	1,664,246
- Public sector entities		**299,879**	299,846
- Banks and other financial institutions		**2,686,693**	3,707,657
		4,721,808	5,671,749

17. HELD-TO-COLLECT DEBT SECURITIES AT AMORTISED COST/HELD-TO-MATURITY INVESTMENTS (Continued)

There were no specific provisions/impairment allowances made against held-to-collect debt securities at amortised cost/held-to-maturity investments as at 30 June 2018 and 31 December 2017.

There were neither impaired nor overdue held-to-collect debt securities at amortised cost/held-to-maturity investments as at 30 June 2018 and 31 December 2017.

All exposures attributed to the held-to-collect debt securities at amortised cost/held-to-maturity investments were rated with a grading of A3 or above based on the credit rating of Moody's as at 30 June 2018 and 31 December 2017.

18. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Interest receivables from financial institutions	**32,314**	45,397
Other debtors, deposits and prepayments	**159,760**	207,971
Net amount of accounts receivables from Hong Kong Securities Clearing Company Limited ("HKSCC")	**15,552**	-
	207,626	253,368

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

Other liabilities

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Interest payable	**129,148**	119,227
Creditors, accruals and other payables	**290,808**	270,401
Net amount of accounts payable to HKSCC	**4,618**	61,118
	424,574	450,746

19. INTANGIBLE ASSETS

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Cost:		
At the beginning and the end of the period/year	**1,923**	1,923
Accumulated impairment:		
At the beginning and the end of the period/year	**1,205**	1,205
Net carrying amount:		
At the beginning and the end of the period/year	**718**	718

Intangible assets represent trading rights held by the Group. The trading rights are retained for stock trading and stockbroking activities, and have indefinite useful lives as the trading rights have no expiry date. They comprise five units (31 December 2017: five units) of Stock Exchange Trading Right and one unit (31 December 2017: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

NOTES TO INTERIM FINANCIAL STATEMENTS

20. PROPERTY AND EQUIPMENT

	Buildings (Unaudited) HK$'000	Leasehold improvement, furniture, fixtures, equipment and motor vehicles (Unaudited) HK$'000	Total (Unaudited) HK$'000
Cost:			
As at 1 January 2018	**18,443**	**267,222**	**285,665**
Transfer from investment properties	**2,230**	**-**	**2,230**
Additions	**-**	**10,908**	**10,908**
Disposals/write-off	**-**	**(280)**	**(280)**
As at 30 June 2018	**20,673**	**277,850**	**298,523**
Accumulated depreciation:			
As at 1 January 2018	**7,277**	**190,974**	**198,251**
Provided during the period	**206**	**10,234**	**10,440**
Disposals/write-off	**-**	**(279)**	**(279)**
As at 30 June 2018	**7,483**	**200,929**	**208,412**
Net carrying amount:			
As at 30 June 2018	**13,190**	**76,921**	**90,111**

20. PROPERTY AND EQUIPMENT (Continued)

	Buildings (Audited) HK$'000	Leasehold improvement, furniture, fixtures, equipment and motor vehicles (Audited) HK$'000	Total (Audited) HK$'000
Cost:			
As at 1 January 2017	18,443	259,551	277,994
Transfer from investment properties	-	-	-
Additions	-	18,361	18,361
Disposals/write-off	-	(10,690)	(10,690)
As at 31 December 2017	18,443	267,222	285,665
Accumulated depreciation:			
As at 1 January 2017	6,874	182,379	189,253
Provided during the year	403	19,170	19,573
Disposals/write-off	-	(10,575)	(10,575)
As at 31 December 2017	7,277	190,974	198,251
Net carrying amount:			
As at 31 December 2017	11,166	76,248	87,414

There were no provisions/impairment allowances made against the above items of property and equipment as at 30 June 2018 and 31 December 2017. There were no movements in provisions/impairment allowances for the period ended 30 June 2018 and for the year ended 31 December 2017.

21. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
As at 1 January 2017, 31 December 2017 and 1 January 2018 (Audited)	**150,466**
Transfer from investment properties	**50,520**
As at 30 June 2018 (Unaudited)	**200,986**
Accumulated depreciation and impairment:	
As at 1 January 2017	46,002
Depreciation provided during the year	3,644
As at 31 December 2017 and 1 January 2018 (Audited)	**49,646**
Depreciation provided during the period	**1,827**
As at 30 June 2018 (Unaudited)	**51,473**
Net carrying amount:	
As at 30 June 2018 (Unaudited)	**149,513**
As at 31 December 2017 (Audited)	100,820

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 disposal and value-in-use.

22. INVESTMENT PROPERTIES

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Carrying amount at the beginning of the period/year	**111,692**	106,087
Transfer to property and equipment	**(2,230)**	-
Transfer to land held under finance leases	**(50,520)**	-
Changes in fair value recognised in consolidated income statement	**2,116**	5,605
Carrying amount at the end of the period/year	**61,058**	111,692

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

All investment properties were classified under Level 3 in the fair value hierarchy. During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (31 December 2017: Nil). The Group has assessed that the highest and best use of its properties did not differ from their existing use.

As at 30 June 2018, 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.

22. INVESTMENT PROPERTIES (Continued)

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

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Range HK$	**Weighted average HK$**	Range HK$	Weighted average HK$
Price per square metre	**80,000 to 507,000**	**256,000**	79,000 to 503,000	361,000

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

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

23. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Demand deposits and current accounts	**4,569,195**	3,832,360
Savings deposits	**6,782,696**	7,723,798
Time, call and notice deposits	**21,918,000**	22,538,617
	33,269,891	34,094,775

24. SHARE CAPITAL

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Issued and fully paid:		
14,816,000 (2017: 14,816,000) ordinary shares	**2,854,045**	2,854,045

NOTES TO INTERIM FINANCIAL STATEMENTS

25. RESERVES

	Note	Group reconstruction reserve HK$'000	Capital reserve HK$'000	Regulatory reserve (Note) HK$'000	Retained profits HK$'000	Translation reserve HK$'000	Total HK$'000
As at 1 January 2017		3,065	17,660	438,738	2,062,669	(10,000)	2,512,132
Profit for the year		-	-	-	495,156	-	495,156
Other comprehensive income		-	-	-	-	68,995	68,995
Transfer from retained profits to regulatory reserve		-	-	1,024	(1,024)	-	-
Dividends paid in respect of previous year		-	-	-	(97,815)	-	(97,815)
Dividends paid in respect of current year		-	-	-	(115,609)	-	(115,609)
As at 31 December 2017 (Reported)		3,065	17,660	439,762	2,343,377	58,995	2,862,859
Impact of adopting HKFRS 9	5	**-**	**-**	**(127,143)**	**34,910**	**-**	**(92,233)**
Restated opening balance under HKFRS 9 as at 1 January 2018		**3,065**	**17,660**	**312,619**	**2,378,287**	**58,995**	**2,770,626**
Profit for the period		**-**	**-**	**-**	**256,399**	**-**	**256,399**
Other comprehensive income		**-**	**-**	**-**	**-**	**(16,831)**	**(16,831)**
Transfer from regulatory reserve to retained profits		**-**	**-**	**(15,258)**	**15,258**	**-**	**-**
Dividends paid in respect of previous year		**-**	**-**	**-**	**(124,810)**	**-**	**(124,810)**
As at 30 June 2018 (Unaudited)		**3,065**	**17,660**	**297,361**	**2,525,134**	**42,164**	**2,885,384**

Note:

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

26. OFF-BALANCE SHEET EXPOSURE

(a) Contingent liabilities, commitments and derivatives

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

			30 June 2018 (Unaudited)		
	Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	**26,166**	**26,166**	**21,172**	**-**	**-**
Transaction-related contingencies	**11,014**	**5,508**	**1,121**	**-**	**-**
Trade-related contingencies	**23,301**	**4,660**	**4,028**	**-**	**-**
Forward forward deposits placed	**119,217**	**119,217**	**23,843**	**-**	**-**
Forward asset purchases	**-**	**-**	**-**	**-**	**-**
	179,698	**155,551**	**50,164**	**-**	**-**
Derivatives held for trading :					
Foreign exchange rate contracts	**1,689,870**	**18,668**	**3,739**	**1,767**	**6,985**
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	**2,690,619**	**-**	**-**	**-**	**-**
	4,560,187	**174,219**	**53,903**	**1,767**	**6,985**

	30 June 2018 (Unaudited) Contractual Amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	**9,132**

NOTES TO INTERIM FINANCIAL STATEMENTS

26. OFF-BALANCE SHEET EXPOSURE (Continued)

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

	31 December 2017 (Audited)				
	Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	26,801	26,801	20,098	-	-
Transaction-related contingencies	11,806	5,903	1,121	-	-
Trade-related contingencies	37,546	7,510	7,016	-	-
Forward forward deposits placed	-	-	-	-	-
Forward asset purchases	-	-	-	-	-
	76,153	40,214	28,235	-	-
Derivatives held for trading :					
Foreign exchange rate contracts	1,310,892	17,429	3,486	4,317	1,696
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	18,737	9,368	9,368	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,996,905	-	-	-	-
	4,402,687	67,011	41,089	4,317	1,696

	31 December 2017 (Audited) Contractual Amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	9,372

26. OFF-BALANCE SHEET EXPOSURE (Continued)

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

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

As at 30 June 2018 and 31 December 2017, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

(b) Derivative financial instruments

The Group uses the following derivative financial instruments:

Currency forwards represent commitments to purchase foreign and domestic currencies, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell a foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of interest rates (for example, fixed rate or floating rate). No exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as used for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risk. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

27. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties in note 22 under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

As at 30 June 2018 and 31 December 2017, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Within one year	**2,145**	1,646
In the second to fifth years, inclusive	**2,668**	784
	4,813	2,430

(b) As lessee

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

As at 30 June 2018 and 31 December 2017, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Within one year	**87,139**	92,581
In the second to fifth years, inclusive	**58,949**	67,826
Over five years	**481**	639
	146,569	161,046

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

		30 June 2018 (Unaudited)		
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets:				
Derivative financial instruments	-	**1,767**	-	**1,767**
Equity investments at fair value through other comprehensive income	-	-	**6,804**	**6,804**
	-	**1,767**	**6,804**	**8,571**
Financial liabilities:				
Derivative financial instruments	-	**6,985**	-	**6,985**

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	31 December 2017 (Audited)			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets:				
Derivative financial instruments	-	4,317	-	4,317
Available-for-sale financial assets	-	-	6,804	6,804
	-	4,317	6,804	11,121
Financial liabilities:				
Derivative financial instruments	-	1,696	-	1,696

Level 2 financial instruments comprise forward foreign exchange contracts and currency swaps. These instruments have been measured at fair value based on the forward foreign exchange rates that are quoted in an active market. As at 30 June 2018 and 31 December 2017, the effects of discounting were considered insignificant for the Level 2 financial instruments.

Level 3 financial instruments are measured at fair value based on the present value of expected cash flows in the foreseeable future.

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 period ended 30 June 2018 and the year ended 31 December 2017, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the period ended 30 June 2018 and the year ended 31 December 2017, there were no issues and settlements related to the Level 3 financial instruments.

There was no gain or loss and no OCI reported in the consolidated income statement and consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the period ended 30 June 2018 and the year ended 31 December 2017.

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.

29. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

30 June 2018 (Unaudited)

	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Cash and short term placements (gross)	1,086,659	2,583,043	-	-	-	-	-	3,669,702
Placements with banks and financial institutions maturing after one month but not more than twelve months (gross)	-	-	837,667	522,009	-	-	-	1,359,676
Loans and advances and receivables (gross)	969,051	3,316,678	958,557	2,914,440	6,330,447	15,059,455	142,694	29,691,322
Equity investments at fair value through other comphersive income	-	-	-	-	-	-	6,804	6,804
Held-to-collect debt securities at amortised cost (gross)	-	509,233	592,167	1,885,658	1,734,750	-	-	4,721,808
Other assets	385	64,794	16,970	46,656	9,990	-	68,831	207,626
Foreign exchange contracts (gross)	-	1,559,837	130,033	-	-	-	-	1,689,870
Total financial assets	2,056,095	8,033,585	2,535,394	5,368,763	8,075,187	15,059,455	218,329	41,346,808
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	45,689	340,546	80,000	70,000	-	-	-	536,235
Customer deposits at amortised cost	11,408,379	7,041,664	9,403,867	4,091,644	1,324,337	-	-	33,269,891
Certificates of deposit issued at amortised cost	-	-	-	-	-	-	-	-
Other liabilities	3,908	102,647	40,413	14,915	49,661	-	213,030	424,574
Foreign exchange contracts (gross)	-	1,563,495	131,593	-	-	-	-	1,695,088
Total financial liabilities	11,457,976	9,048,352	9,655,873	4,176,559	1,373,998	-	213,030	35,925,788
Net liquidity gap	(9,401,881)	(1,014,767)	(7,120,479)	1,192,204	6,701,189	15,059,455	5,299	5,421,020

31 December 2017 (Audited)

	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Cash and short term placements	1,176,544	3,694,992	-	-	-	-	-	4,871,536
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	772,667	741,428	-	-	-	1,514,095
Loans and advances and receivables (gross)	1,068,123	3,037,095	1,042,059	2,958,331	6,292,224	14,851,591	135,035	29,384,458
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	480,115	1,056,466	2,004,538	2,130,630	-	-	5,671,749
Other assets	236	138,452	21,668	37,600	-	-	55,412	253,368
Foreign exchange contracts (gross)	-	1,155,332	155,560	-	-	-	-	1,310,892
Total financial assets	2,244,903	8,505,986	3,048,420	5,741,897	8,422,854	14,851,591	197,251	43,012,902
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	45,728	848,064	200,000	30,000	-	-	-	1,123,792
Customer deposits at amortised cost	11,550,619	7,302,196	8,062,858	6,153,066	1,026,036	-	-	34,094,775
Certificates of deposit issued at amortised cost	-	-	753,293	-	-	-	-	753,293
Other liabilities	1,449	172,674	31,355	36,262	33,905	-	175,101	450,746
Foreign exchange contracts (gross)	-	1,152,127	156,144	-	-	-	-	1,308,271
Total financial liabilities	11,597,796	9,475,061	9,203,650	6,219,328	1,059,941	-	175,101	37,730,877
Net liquidity gap	(9,352,893)	(969,075)	(6,155,230)	(477,431)	7,362,913	14,851,591	22,150	5,282,025

30. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise customer deposits and certificates of deposit issued. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as cash and short term placements, held-to-collect debt securities at amortised cost, loans and advances and receivables, and equity investment at FVOCI, which arise directly from its operations.

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

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

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

Risk management structure

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.

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

Market risk management

(a) Currency risk

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

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

As at 30 June 2018, if RMB had strengthened or weakened by 100 basis points against HKD with all other variables held constant, the Group's equity would have increased or decreased by HK$12 million (31 December 2017: HK$12 million) mainly as a result of foreign exchange impact arising from net structural position of RMB denominated operating capital.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(a) Currency risk (Continued)

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

	Spot assets HK$'million	**Spot liabilities HK$'million**	**Forward purchases HK$'million**	**Forward sales HK$'million**	**Net short position HK$'million**	**Structural assets HK$'million**
As at 30 June 2018 (Unaudited)						
USD	**4,234**	**4,604**	**957**	**591**	**(4)**	**-**
RMB	**2,118**	**2,120**	**8**	**9**	**(3)**	**1,183**
AUD	**854**	**1,012**	**256**	**101**	**(3)**	**-**
NZD	**101**	**416**	**337**	**23**	**(1)**	**-**
Others	**488**	**502**	**115**	**101**	**-**	**-**
	7,795	**8,654**	**1,673**	**825**	**(11)**	**1,183**

	Spot assets HK$'million	Spot liabilities HK$'million	Forward purchases HK$'million	Forward sales HK$'million	Net long/(short) position HK$'million	Structural assets HK$'million
As at 31 December 2017 (Audited)						
USD	4,712	4,287	439	867	(3)	-
RMB	2,016	1,999	1	2	16	1,199
AUD	991	994	5	5	(3)	-
NZD	262	468	220	15	(1)	-
Others	539	501	18	56	-	-
	8,520	8,249	683	945	9	1,199

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(b) Price risk

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

The Group monitors price risk principally by limits established for transactions and open positions. These limits are reviewed and approved by the respective Boards of the Bank and Public Finance 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 defines the credit extension and measurement criteria, credit review, approval and monitoring processes, and the loan classification and provisioning systems. It has a hierarchy of credit authority which approves credit in compliance with the Group's credit policy. Credit risk exposures are measured and monitored against credit limits and other control limits (such as connected exposures, large exposures and risk concentration limits approved by the respective Boards or dedicated committees). Segregation of duties in key credit functions is in place to ensure separate credit control and monitoring. Management and recovery of problem credits are handled by an independent work-out team.

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

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

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management (Continued)

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 and management reports. Loan borrowers subject to legal proceedings, negative comments from other counterparties and rescheduled arrangements are put under watch lists or under the "special mention" grade for management oversight.

Credit Committees of 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 meeting discussions and management reports. Impaired financial assets include those subject to personal bankruptcy petitions, corporate winding-up and rescheduled arrangements.

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

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

The "Neither past due nor impaired loans and advances and receivables" are shown in note 15 to the interim financial statements.

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

Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its current obligations. Major sources of liquidity risk of the Group are the early or unexpected withdrawals of deposits in cash outflow and the delay in cash inflow from loan repayments. To manage liquidity risk, the Group has established a liquidity risk management framework which incorporates liquidity risk related policies and procedures, risk related metrics and tools, risk related assumptions, and the manner of reporting significant matters. The major objectives of liquidity risk management framework are to identify, measure and control liquidity risk exposures with proper implementation of funding strategies and 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 Group.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

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

The examples of liquidity risk related metrics of the Bank and Public Finance include internal trigger points of liquidity maintenance ratios (which are higher than the statutory liquidity maintenance ratio); cash-flow mismatches under normal and different stress scenarios; concentration related limits of deposits and other funding sources, and maturity profile of major assets and liabilities (including on-balance sheet and off-balance sheet items). The systems and procedures are in place to measure and manage liquidity risk by cash-flow projections in both baseline and stressed scenario arising from off-balance sheet exposures and contingent funding obligations. In baseline scenario, expected cash outflow is derived from the aforesaid exposures and obligations including potential drawdowns of unused committed facilities; trade related contingencies; issued letters of credit and financial guarantee unrelated to trade related contingencies; and uncommitted facilities and other contingent obligations with regard to not only the contractual terms in agreements with customers but also the manner of past months' utilisation and genuine drawdowns of the credit facilities; customer relationships and reputational risk perspectives. In stressed scenario, the utilisation and drawdowns of credit facilities are expected to escalate to some extent.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

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

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

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Liquidity maintenance ratio

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

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Consolidated average liquidity maintenance ratio	**44.0%**	47.0%

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

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

Operational risk management

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

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

Capital of the Group for regulatory and risk management purposes includes share capital, reserves, retained profits, regulatory reserve and subordinated debts, if any. Finance and Control Department is responsible for monitoring the amount of the capital base and capital adequacy ratios against trigger limits and for risk exposures and ensuring compliance with relevant statutory limits, taking into account business growth, dividend payout and other relevant factors.

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

Capital adequacy ratios

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

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Consolidated CET1 Capital Ratio	**18.7%**	18.0%
Consolidated Tier 1 Capital Ratio	**18.7%**	18.0%
Consolidated Total Capital Ratio	**19.9%**	19.2%

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital disclosures

The components of capital base include the following items:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
CET1 capital instruments	**2,854,045**	2,854,045
Retained earnings	**2,401,705**	2,225,752
Disclosed reserves	**343,184**	502,417
CET1 capital before deduction	**5,598,934**	5,582,214
Deduct:		
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	**(34,386)**	(32,270)
Regulatory reserve for general banking risk	**(297,360)**	(439,762)
Goodwill	**(242,342)**	(242,342)
Deferred tax assets in excess of deferred tax liabilities	**(27,374)**	(10,140)
CET1 capital after deduction	**4,997,472**	4,857,700
Additional Tier 1 capital	**-**	-
Tier 1 capital after deductions	**4,997,472**	4,857,700
Reserve attributable to fair value gains	**15,474**	14,522
Regulatory reserve for general banking risk	**151,113**	282,719
Collective provisions	**137,466**	8,891
	288,579	291,610
Tier 2 capital	**304,053**	306,132
Capital base	**5,301,525**	5,163,832
Total risk-weighted assets	**26,693,602**	26,913,775

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital conservation buffer (CCB)

The Group is subject to the 2.5% CCB ratio which has been phased-in from 2016. The applicable CCB ratio effective from 1 January 2018 is 1.875%. The Group has reserved a capital buffer for the implementation of CCB ratio for which the applicable CCB ratio will become fully effective on 1 January 2019.

Countercyclical capital buffer (CCyB)

The CCyB ratio is an additional layer of CET1 Capital which takes effect as an extension of the Basel III capital conservation buffer.

The Group has reserved a capital buffer for the implementation of CCyB ratio, inclusive of CCyB ratio of 1.875%, to the private sector credit exposures in Hong Kong.

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

Jurisdiction (J)	**Applicable JCCyB ratio in effect %**	**Total RWA used in computation of CCyB ratio HK$'000**	**CCyB ratio %**	**CCyB amount HK$'000**
As at 30 June 2018 (Unaudited)				
1. Hong Kong	**1.875**	**18,025,819**		
2. Mainland China	**0.000**	**1,887,480**		
Total		**19,913,299**	**1.697**	**337,984**

Jurisdiction (J)	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK$'000	CCyB ratio %	CCyB amount HK$'000
As at 31 December 2017 (Audited)				
1. Hong Kong	1.250	17,683,570		
2. Mainland China	0.000	1,671,028		
Total		19,354,598	1.142	221,045

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Leverage ratio

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

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Consolidated Tier 1 Capital	**4,997,472**	4,857,700
Consolidated Exposure Measure for Leverage Ratio	**40,085,047**	41,870,577
Consolidated Leverage Ratio	**12.5%**	11.6%

The disclosure on leverage ratio has been effective since 31 March 2015 and the relevant disclosures can be viewed in the Semi-annual Disclosures under "Regulatory Disclosures" section on the Bank's website at www.publicbank.com.hk on or before 30 September 2018.

Principal subsidiaries and basis of consolidation

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

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

The subsidiaries not included in the computation of the consolidated capital adequacy ratios of the Group are Public Bank (Nominees) Limited, Public Credit Limited, Public Futures Limited, Public Pacific Securities Limited, Public Financial Securities Limited, Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited.

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital instruments

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 interim financial statements in the Semi-annual Disclosures under "Regulatory Disclosures" section on the Bank's website at www.publicbank.com.hk on or before 30 September 2018.

The 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.

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

	Note	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000
CET1 capital instruments issued by the Bank			
Ordinary shares:			
14,816,000 issued and fully paid ordinary shares	24	**2,854,045**	2,854,045

Pillar 3 disclosures

Further disclosures with respect to capital adequacy and risk management were shown in the Pillar 3 disclosures templates as required by the Banking (Disclosure) Rules. The Group will publish the Semi-annual Disclosures for the 2nd quarter ended 30 June 2018 under "Regulatory Disclosures" section on the Bank's website at www.publicbank.com.hk on or before 30 September 2018.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(A) ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

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

	30 June 2018								
	Gross loans and advances HK$'000	General provision HK$'000	Specific provision HK$'000	New provisions for loans charged to income statement HK$'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	**492,287**	**457**	**-**	**103**	**23**	**480,772**	**97.7**	**-**	**-**
Building and construction, property development and investment									
Property development	**13,552**	**3**	**-**	**-**	**-**	**13,552**	**100.0**	**-**	**-**
Property investment	**5,838,433**	**1,167**	**-**	**98**	**-**	**5,838,433**	**100.0**	**2,631**	**2,631**
Civil engineering works	**164,107**	**273**	**-**	**96**	**-**	**70,560**	**43.0**	**-**	**-**
Electricity and gas	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Recreational activities	**132,622**	**34**	**-**	**10**	**-**	**132,144**	**99.6**	**-**	**-**
Information technology	**3,899**	**1**	**-**	**-**	**-**	**3,899**	**100.0**	**-**	**-**
Wholesale and retail trade	**269,910**	**1,596**	**37**	**295**	**-**	**231,920**	**85.9**	**36**	**37**
Transport and transport equipment	**4,670,431**	**1,589**	**698**	**148**	**326**	**4,601,583**	**98.5**	**668**	**165**
Hotels, boarding houses and catering	**155,772**	**180**	**-**	**136**	**-**	**150,431**	**96.6**	**-**	**-**
Financial concerns	**1,317,493**	**263**	**-**	**2**	**-**	**1,317,224**	**100.0**	**-**	**-**
Stockbrokers									
Margin lending	**649,263**	**130**	**-**	**25**	**-**	**579,263**	**89.2**	**-**	**-**
Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	**45,497**	**9**	**-**	**-**	**-**	**45,497**	**100.0**	**-**	**-**
Others	**56,958**	**38**	**-**	**-**	**-**	**56,958**	**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	**49,044**	**10**	**-**	**-**	**-**	**49,044**	**100.0**	**-**	**-**
Loans for the purchase of other residential properties	**7,856,587**	**1,569**	**3**	**94**	**-**	**7,856,587**	**100.0**	**25,253**	**15,180**
Loans for credit card advances	**9,089**	**14**	**38**	**7**	**36**	**-**	**-**	**38**	**-**
Loans for other business purposes	**14,775**	**3**	**-**	**-**	**-**	**14,775**	**100.0**	**-**	**-**
Loans for other private purposes	**4,328,532**	**125,832**	**53,178**	**51,262**	**147,680**	**262,112**	**6.1**	**110,757**	**52,696**
Trade finance	**742,005**	**205**	**-**	**40**	**-**	**711,038**	**95.8**	**-**	**-**
Other loans and advances	**109,580**	**40**	**-**	**1**	**-**	**109,094**	**99.6**	**-**	**-**
Sub-total	**26,919,836**	**133,413**	**53,954**	**52,317**	**148,065**	**22,524,886**	**83.7**	**139,383**	**70,709**
Loans and advances for use outside Hong Kong	**2,656,041**	**1,188**	**117**	**474**	**941**	**2,492,407**	**93.8**	**2,525**	**2,525**
Total loans and advances (excluding trade bills and other receivables)	**29,575,877**	**134,601**	**54,071**	**52,791**	**149,006**	**25,017,293**	**84.6**	**141,908**	**73,234**

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(A) ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

31 December 2017	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	650,953	92	17	21	-	638,857	98.1	23	23
Building and construction, property development and investment									
Property development	166,434	22	-	88	89	166,434	100.0	-	-
Property investment	5,556,793	764	-	15	399	5,556,793	100.0	-	-
Civil engineering works	146,519	30	-	-	-	53,279	36.4	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	136,711	18	-	15	-	136,691	100.0	-	-
Information technology	4,311	1	-	-	-	4,311	100.0	-	-
Wholesale and retail trade	251,875	63	42	76	122	218,048	86.6	42	42
Transport and transport equipment	4,345,028	558	850	600	384	4,294,713	98.8	947	380
Hotels, boarding houses and catering	145,913	20	-	-	-	142,018	97.3	-	-
Financial concerns	1,342,484	180	-	64	-	1,337,484	99.6	-	-
Stockbrokers									
Margin lending	558,715	75	-	20	-	477,526	85.5	-	-
Others	-	-	-	-	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	47,759	6	-	-	-	47,759	100.0	-	-
Others	57,660	8	-	-	-	57,660	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	52,314	7	-	-	-	52,314	100.0	-	-
Loans for the purchase of other residential properties	8,006,746	1,046	-	2	-	8,006,746	100.0	12,792	8,385
Loans for credit card advances	10,292	1	35	120	117	-	-	87	23
Loans for other business purposes	13,981	2	-	-	-	13,981	100.0	-	-
Loans for other private purposes	4,428,472	5,462	69,434	298,366	313,955	486,735	11.0	102,075	52,931
Trade finance	785,789	106	-	-	-	751,667	95.7	-	-
Other loans and advances	110,930	15	-	2	-	109,868	99.0	-	-
Sub-total	26,819,679	8,476	70,378	299,389	315,066	22,552,884	84.1	115,966	61,784
Loans and advances for use outside Hong Kong	2,450,711	323	638	2,792	12,248	2,275,681	92.9	17,394	13,702
Total loans and advances (excluding trade bills and other receivables)	29,270,390	8,799	71,016	302,181	327,314	24,828,565	84.8	133,360	75,486

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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(B) INTERNATIONAL CLAIMS

The information of international claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties taking into account any recognised risk transfer. In general, recognised risk transfer 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 tables illustrate the international claims on individual countries or areas taking into account the recognised risk transfer, amounting to 10% or more of the aggregate international claims.

	Banks HK$'million	**Official sector HK$'million**	**Non-bank financial institutions HK$'million**	**Non-financial private sector HK$'million**	**Total HK$'million**
As at 30 June 2018					
1. Developed countries*	**2,094**	**7**	**-**	**423**	**2,524**
2. Offshore centres,	**588**	**2**	**241**	**3,591**	**4,422**
of which					
- Hong Kong	**509**	**2**	**121**	**2,661**	**3,293**
3. Developing					
Asia-Pacific,	**2,907**	**50**	**-**	**1,064**	**4,021**
of which					
- China	**2,310**	**50**	**-**	**980**	**3,340**

	Banks HK$'million	Official sector HK$'million	Non-bank financial institutions HK$'million	Non-financial private sector HK$'million	Total HK$'million
As at 31 December 2017					
1. Developed countries*	3,068	5	-	308	3,381
2. Offshore centres,	750	3	249	3,280	4,282
of which					
- Hong Kong	306	3	128	2,478	2,915
3. Developing					
Asia-Pacific,	3,801	39	18	1,151	5,009
of which					
- China	2,150	39	18	1,066	3,273

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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(C) MAINLAND ACTIVITIES

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

Types of counterparties	**On-balance sheet exposure HK$'million**	**Off-balance sheet exposure HK$'million**	**Total HK$'million**
As at 30 June 2018			
Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	**299**	**-**	**299**
People's Republic of China ("PRC") nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**726**	**1,235**	**1,961**
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**40**	**-**	**40**
Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	**1,620**	**-**	**1,620**
Total	**2,685**	**1,235**	**3,920**
Total assets after provision	**35,311**		
On-balance sheet exposures as percentage of total assets	**7.60%**		

Types of counterparties	On-balance sheet exposure HK$'million	Off-balance sheet exposure HK$'million	Total HK$'million
As at 31 December 2017			
Central government, central government-owned entities and their subsidiaries and JVs	409	-	409
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	656	1,224	1,880
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	7	-	7
Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	1,444	-	1,444
Total	2,516	1,224	3,740
Total assets after provision	37,618		
On-balance sheet exposures as percentage of total assets	6.69%		

Note:

The analysis of non-bank Mainland China exposures is disclosed with reference to the Banking (Disclosure) Rules and Completion Instruction for the HKMA Return of Mainland Activities.

BUSINESS PERFORMANCE

For the six months ended 30 June 2018, the Group recorded a profit after tax of HK$256.4 million, representing an increase of HK$21.1 million or 9.0% as compared to the profit after tax of HK$235.3 million for the corresponding period in 2017. The increase in earnings of the Group was attributed to the increase in net interest income for the period under review.

During the period under review, the Group's total interest income increased by HK$49.3 million or 5.8% to HK$900.6 million, and total interest expense increased by HK$6.0 million or 3.4% to HK$180.4 million due to the increase in funding cost of customer deposits in the period under review. Consequently, net interest income increased by HK$43.3 million or 6.4% to HK$720.2 million, from improved net interest margin.

Other operating income of the Group increased by HK$6.7 million or 6.3% to HK$112.2 million, mainly due to higher fee income from the Group's stockbroking and bancassurance activities.

The Group's operating expenses increased by HK$15.4 million or 3.6% to HK$437.7 million mainly due to increase of staff related costs in the period under review.

Credit loss expense increased by HK$10.1 million or 13.5% to HK$84.6 million mainly due to higher recovery of impaired loans in the corresponding period of last year. Impaired loans to total loans ratio increased slightly by 0.02% to 0.48% as at 30 June 2018 from 0.46% as at 31 December 2017.

The Group's total loans and advances (including trade bills) increased by HK$309.3 million or 1.1% to HK$29.61 billion as at 30 June 2018 from HK$29.30 billion as at 31 December 2017. The Group's deposits from customers decreased by HK$824.9 million or 2.4% to HK$33.27 billion as at 30 June 2018 from HK$34.09 billion as at 31 December 2017. Total assets of the Group stood at HK$40.05 billion as at 30 June 2018.

The Group will continue to focus on its retail and commercial banking business and consumer financing business, and its stockbroking and fee based businesses.

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

19 July 2018