PUBLIC FINANCE LIMITED

INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017

PUBLIC FINANCE LIMITED

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PUBLIC FINANCE LIMITED
(Incorporated in Hong Kong with limited liability)
(Website: www.publicfinance.com.hk)

INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The Board of Directors (the "Board") of Public Finance Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'000
Interest income	7	**424,167**	423,360
Interest expense	7	**(36,570)**	(30,523)
NET INTEREST INCOME		**387,597**	392,837
Other operating income	8	**56,355**	55,446
OPERATING INCOME		**443,952**	448,283
Operating expenses	9	**(213,649)**	(194,532)
Changes in fair value of investment properties		**468**	(118)
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**230,771**	253,633
Impairment allowances for loans and advances and receivables	10	**(81,631)**	(119,714)
PROFIT BEFORE TAX		**149,140**	133,919
Tax	11	**(24,894)**	(22,032)
PROFIT FOR THE PERIOD		**124,246**	111,887
ATTRIBUTABLE TO:			
Owners of the Company		**124,246**	111,887

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT FOR THE PERIOD	**124,246**	111,887
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**124,246**	111,887
ATTRIBUTABLE TO:		
Owners of the Company	**124,246**	111,887

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2017 (Unaudited) HK$'000**	31 December 2016 (Audited) HK$'000
ASSETS			
Cash and short term placements	13	**1,192,817**	1,234,029
Loans and advances and receivables	14	**5,505,329**	5,317,412
Held-to-maturity investments	15	**19,989**	19,968
Investment properties	16	**23,879**	23,411
Property and equipment	17	**15,305**	16,985
Land held under finance leases	18	**44,558**	45,235
Deferred tax assets		**11,755**	14,515
Intangible assets		**486**	486
Other assets	19	**39,212**	28,186
TOTAL ASSETS		**6,853,330**	6,700,227
EQUITY AND LIABILITIES			
LIABILITIES			
Customer deposits at amortised cost	20	**5,137,313**	4,975,010
Current tax payable		**16,576**	6,689
Deferred tax liabilities		**4,237**	4,014
Other liabilities	19	**105,202**	151,074
TOTAL LIABILITIES		**5,263,328**	5,136,787
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	21	**671,038**	671,038
Reserves	22	**918,964**	892,402
TOTAL EQUITY		**1,590,002**	1,563,440
TOTAL EQUITY AND LIABILITIES		**6,853,330**	6,700,227

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	For the six months ended 30 June 2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
TOTAL EQUITY			
Balance at the beginning of the period		**1,563,440**	1,584,434
Profit for the period		**124,246**	111,887
Other comprehensive income		**-**	-
Total comprehensive income for the period		**124,246**	111,887
Dividends paid in respect of previous year	12(b)	**(97,684)**	(121,512)
Balance at the end of the period		**1,590,002**	1,574,809

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the six months ended 30 June **2017** **(Unaudited)** **HK$'000**	 2016 (Unaudited) HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**149,140**	133,919
Adjustments for:			
Depreciation of property and equipment and land held under finance leases	9	**3,676**	3,711
(Increase) / decrease in fair value of investment properties		**(468)**	118
Decrease in impairment allowances for loans and advances and receivables		**(16,652)**	(4,641)
Net losses on disposal of property and equipment		**36**	6
Profits tax paid		**(12,024)**	(10,791)
Operating profit before changes in operating assets and liabilities		**123,708**	122,322
Increase in operating assets:			
Increase in loans and advances and receivables		**(171,265)**	(1,645)
Decrease / (increase) in held-to-maturity investments		**19,968**	(19,993)
Increase in other assets		**(11,026)**	(8,586)
		(162,323)	(30,224)
Increase in operating liabilities:			
Increase in customer deposits at amortised cost		**162,303**	92,323
Decrease in other liabilities		**(45,872)**	(39,216)
		116,431	53,107
Net cash inflow from operating activities		**77,816**	145,205

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the six months ended 30 June **2017** **(Unaudited)** **HK$'000**	 2016 (Unaudited) HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	17	**(1,355)**	(2,450)
Net cash outflow from investing activities		**(1,355)**	(2,450)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on shares		**(97,684)**	(121,512)
Net cash outflow from financing activities		**(97,684)**	(121,512)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(21,223)**	21,243
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**1,234,029**	1,191,982
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**1,212,806**	1,213,225
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand		**387,701**	411,537
Money at call and short notice with an original maturity within three months		**805,116**	801,688
Held-to-maturity investments with an original maturity within three months		**19,989**	-
		1,212,806	1,213,225

NOTES TO INTERIM FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

The Company is a company incorporated in Hong Kong with limited liability. The registered office of the Company is located at Room 1105-7, Wing On House, 71 Des Voeux Road Central, Central, Hong Kong.

The principal activities of the Company and the Group have not changed during the period and consisted of deposit taking, personal and commercial lending, which comprised mainly the granting of personal loans, revolving loans, property mortgage loans, hire purchase loans to individuals and small to medium size manufacturing companies, remittance service, the provision of finance to purchasers of taxis, the letting of investment properties and the provision of stockbroking.

The Company is a wholly-owned subsidiary of Public Bank (Hong Kong) Limited. Public Bank Berhad, a bank incorporated in Malaysia, is considered by the Directors to be the Company's ultimate holding company.

Particulars of the Company'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 Company Direct %	Indirect %	Principal activities
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 2016 annual financial statements, 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 the annual financial statements, and should be read in conjunction with the Company's 2016 annual financial statements.

The financial information relating to the year ended 31 December 2016 that is included in the 2017 interim financial statements as comparative information does not constitute the Company's statutory annual consolidated 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:

As the Company is a private company, the Company is not required to deliver its financial statements to the Registrar of Companies, and has not done so.

The Company's external auditors have reported on the 2016 annual 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 Company and its subsidiaries for the period ended 30 June 2017.

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

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

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

(ii) rights arising from other contractual arrangements; and

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

3. BASIS OF CONSOLIDATION (Continued)

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

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

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

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

The subsidiaries consolidated for accounting purpose are as follows:

	30 June 2017		31 December 2016		
Name	**Total assets (Unaudited) HK$'000**	**Total equity (Unaudited) HK$'000**	Total assets (Audited) HK$'000	Total equity (Audited) HK$'000	**Principal activities**
Public Financial Limited	**10,101**	**10,101**	10,101	10,101	Investment holding
Public Securities Limited	**173,510**	**153,242**	178,378	151,306	Securities brokerage
Public Securities (Nominees) Limited	**1,132**	**1,130**	1,134	1,130	Provision of nominee services

The computation of liquidity maintenance ratio, common equity tier 1 ("CET1") capital ratio, tier 1 capital ratio, total capital ratio, capital conservation buffer ("CCB") ratio, countercyclical capital buffer ("CCyB") ratio and leverage ratio for regulatory purpose is on a solo basis of the Company only.

4. BASIS OF CAPITAL DISCLOSURES

The Company 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 Company 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 total capital ratio of the Company is based on the ratio of the risk-weighted exposures to the capital base of the Company for regulatory reporting purpose. No subsidiary will be consolidated for capital adequacy ratio computation as the subsidiaries do not satisfy the criteria as stipulated in the Banking (Capital) Rules (the “Capital Rules”) issued by the HKMA.

There are no major restrictions or impediments on the transfer of capital or funds among the members of the Company’s consolidation group except that liquidity, capital and other performance indicators of Public 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 Capital Rules. The Capital Rules outline the general requirements on regulatory capital ratios, the components of eligible regulatory capital as well as the levels of those ratios at which banking institutions are required to operate. The Capital Rules have been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision. Under the Capital Rules, the minimum capital ratio requirements are progressively increased during the period from 1 January 2013 to 1 January 2019, and include a phased introduction of a new CCB ratio of 2.5%. Additional capital requirements, including a new CCyB ratio ranging from 0% to 2.5%, have been implemented since 1 January 2016. The required CCyB ratio for 2017 is 1.25%. The Company monitors leverage ratio to ensure compliance with regulatory requirements.

5. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are generally effective for accounting periods beginning on or after 1 January 2017. The Group has adopted the following revised standards for the first time for the current period's interim financial statements:

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

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

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

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs

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

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

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

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

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

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

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

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

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

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

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

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

The Group expects to adopt HKFRS 9 from 1 January 2018. The Group intends to quantify the potential impact of HKFRS 9 once it is practicable to provide reliable estimates.

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

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

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.

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. As at 30 June 2017, the Group had non-cancellable operating lease commitments of HK$65,471,000 as set out in note 23(b) to the interim financial statements. The interest expense on the lease liability and the depreciation expense on the right-of-use asset under HKFRS 16 will replace the rental charge under HKAS 17. The operating lease commitments as shown in off-balance sheet item will be replaced by “right-of-use asset” and “lease liability” in the balance sheet of the Group. Other than the above, the Group does not anticipate that the application of this standard will have material impact on the consolidated financial statements of the Group.

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

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

6. SEGMENT INFORMATION

Operating segment information

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

- the core businesses of the Group are personal and commercial lending businesses, which comprise mainly the granting of personal loans, revolving loans, property mortgage loans, hire purchase loans to individuals and small to medium size manufacturing companies, remittance service, and the provision of finance to purchasers of taxis;

- the stockbroking segment comprises securities dealing and receipt of commission income; and

- other businesses segment comprises 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 2017 and 2016.

	Personal and commercial lending businesses For the six months ended 30 June		**Stockbroking For the six months ended 30 June**		**Other businesses For the six months ended 30 June**		**Total For the six months ended 30 June**	
	2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000	**2017 (Unaudited) HK$'000**	2016 (Unaudited) HK$'000	**2017 (Unaudited) HK$'000**	2016 (Unaudited) HK$'000	**2017 (Unaudited) HK$'000**	2016 (Unaudited) HK$'000
Segment revenue								
External:								
Net interest income/ (expense)	**387,656**	392,851	**(59)**	(14)	**-**	-	**387,597**	392,837
Other operating income:								
Fees and commission income	**47,389**	47,810	**8,318**	6,988	**-**	-	**55,707**	54,798
Others	**103**	98	**9**	7	**536**	543	**648**	648
Operating income	**435,148**	440,759	**8,268**	6,981	**536**	543	**443,952**	448,283
Operating profit after impairment allowance before tax	**146,228**	132,307	**2,316**	1,565	**596**	47	**149,140**	133,919
Tax							**(24,894)**	(22,032)
Profit for the period							**124,246**	111,887
Other segment information								
Depreciation of property and equipment and land held under finance leases	**(3,676)**	(3,711)	**-**	-	**-**	-	**(3,676)**	(3,711)
Changes in fair value of investment properties	**-**	**-**	**-**	-	**468**	(118)	**468**	(118)
Impairment allowances for loans and advances and receivables	**(81,631)**	(119,714)	**-**	-	**-**	-	**(81,631)**	(119,714)
Net losses on disposal of property and equipment	**(36)**	(6)	**-**	-	**-**	-	**(36)**	(6)

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table discloses certain asset and liability information regarding operating segments as at 30 June 2017 and 31 December 2016.

	Personal and commercial lending businesses		Stockbroking		Other businesses		Total	
	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000	**30 June 2017 (Unaudited) HK$'000**	31 December 2016 (Audited) HK$'000	**30 June 2017 (Unaudited) HK$'000**	31 December 2016 (Audited) HK$'000	**30 June 2017 (Unaudited) HK$'000**	31 December 2016 (Audited) HK$'000
Segment assets other than intangible assets	**6,609,292**	6,406,529	**207,918**	255,286	**23,879**	23,411	**6,841,089**	6,685,226
Intangible assets	**-**	-	**486**	486	**-**	-	**486**	486
Segment assets	**6,609,292**	6,406,529	**208,404**	255,772	**23,879**	23,411	**6,841,575**	6,685,712
Unallocated assets:								
Deferred tax assets and tax recoverable							**11,755**	14,515
Total assets							**6,853,330**	6,700,227
Segment liabilities	**5,188,690**	5,022,574	**53,515**	103,200	**310**	310	**5,242,515**	5,126,084
Unallocated liabilities:								
Deferred tax liabilities and tax payable							**20,813**	10,703
Total liabilities							**5,263,328**	5,136,787
Other segment information								
Additions to non-current assets - capital expenditure	**1,355**	7,007	**-**	-	**-**	-	**1,355**	7,007

Geographical information

Over 90% (2016: over 90%) of the Group's operating income, profit before tax, assets, liabilities, off-balance sheet commitments and exposures are derived from operations carried out in Hong Kong. Accordingly, no geographical segment information is presented in the interim financial statements.

Operating income or revenue from major customers

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

7. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**423,469**	423,010
Short term placements and placements with banks	**653**	341
Held-to-maturity investments	**45**	9
	424,167	423,360
Interest expense on:		
Deposits from customers	**36,444**	30,477
Bank loans	**126**	46
	36,570	30,523

Interest income and interest expense for the six months ended 30 June 2017, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss, amounted to HK$424,167,000 and HK$36,570,000 (2016: HK$423,360,000 and HK$30,523,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2017 amounted to HK$3,083,000 (2016: HK$1,048,000).

8. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Fees and commission income:		
Personal and commercial lending	**47,389**	47,810
Stockbroking	**8,318**	6,988
	55,707	54,798
Gross rental income	**538**	546
Less: Direct operating expenses	**(2)**	(3)
Net rental income	**536**	543
Net losses on disposal of property and equipment	**(36)**	(6)
Others	**148**	111
	56,355	55,446

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

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

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

9. OPERATING EXPENSES

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Staff costs:		
Salaries and other staff costs	**131,924**	117,087
Pension contributions	**5,820**	5,592
Less: Forfeited contributions	**(6)**	(10)
Net contribution to retirement benefit schemes	**5,814**	5,582
	137,738	122,669
Other operating expenses:		
Operating lease rentals on leasehold buildings	**22,233**	23,160
Depreciation of property and equipment and land held under finance leases	**3,676**	3,711
Administrative and general expenses	**17,149**	15,324
Others	**32,853**	29,668
Operating expenses before changes in fair value of investment properties	**213,649**	194,532

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

10. IMPAIRMENT ALLOWANCES

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net charge for impairment losses and allowances:		
- loans and advances	**81,631**	119,714
Net charge for/(write-back of) impairment losses and allowances:		
- individually assessed	**83,526**	119,806
- collectively assessed	**(1,895)**	(92)
	81,631	119,714
Of which:		
- new impairment losses and allowances (including any amount directly written off during the period)	**150,354**	186,393
- releases and recoveries	**(68,723)**	(66,679)
Net charge to the consolidated income statement	**81,631**	119,714

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

11. TAX

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current tax charge	**21,911**	20,382
Deferred tax charge, net	**2,983**	1,650
	24,894	22,032

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rates to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. statutory tax rates) to the effective tax rates, are as follows:

	For the six months ended 30 June			
	2017		2016	
	(Unaudited)		(Unaudited)	
	HK$'000	**%**	HK$'000	%
Profit before tax	**149,140**		133,919	
Tax at the applicable tax rate	**24,608**	**16.5**	22,097	16.5
Estimated tax effect of net expenses/(income) that are/is not deductible/(taxable)	**286**	**0.2**	(65)	-
Tax charge at the Group's effective rate	**24,894**	**16.7**	22,032	16.5

12. DIVIDENDS

(a) Dividends attributable to the interim period

	For the six months ended 30 June			
	2017	2016	**2017**	2016
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK cents per ordinary share		**HK$'000**	HK$'000
Interim dividend	**47.074**	42.715	**121,828**	110,546

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

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

	For the six months ended 30 June			
	2017	2016	**2017**	2016
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK cents per ordinary share		**HK$'000**	HK$'000
Final dividend in respect of the previous year	**37.745**	46.952	**97,684**	121,512

13. CASH AND SHORT TERM PLACEMENTS

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Cash and placements with banks and financial institutions	**387,701**	415,883
Money at call and short notice	**805,116**	818,146
	1,192,817	1,234,029

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

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

14. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Loans and advances to customers	**5,537,725**	5,363,361
Accrued interest	**43,338**	46,437
Gross loans and advances and receivables	**5,581,063**	5,409,798
Less: Impairment allowances for loans and advances and receivables		
- individually assessed	**(69,719)**	(84,476)
- collectively assessed	**(6,015)**	(7,910)
	(75,734)	(92,386)
Loans and advances and receivables	**5,505,329**	5,317,412

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

Loans and advances and receivables are summarised as follows:

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Neither past due nor impaired loans and advances and receivables	**5,281,759**	4,998,039
Past due but not impaired loans and advances and receivables	**196,947**	288,017
Individually impaired loans and advances	**102,357**	123,742
Individually impaired receivables	**-**	-
Gross loans and advances and receivables	**5,581,063**	5,409,798

About 32% (2016: about 31%) of "Neither past due nor impaired loans and advances and receivables" were property mortgage loans and taxi financing loans secured by customer deposits, properties, taxi licences and vehicles.

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2017 (Unaudited)		31 December 2016 (Audited)	
	Gross amount HK$'000	**Percentage of total loans and advances %**	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	**56,124**	**1.01**	65,489	1.22
One year or less but over six months	**1,407**	**0.03**	1,801	0.04
Over one year	**-**	**-**	-	-
Loans and advances overdue for more than three months	**57,531**	**1.04**	67,290	1.26
Rescheduled loans and advances overdue for three months or less	**43,802**	**0.79**	54,886	1.02
Impaired loans and advances overdue for three months or less	**1,024**	**0.02**	1,566	0.03
Total overdue and impaired loans and advances	**102,357**	**1.85**	123,742	2.31

There were no overdue and impaired accrued interest and other receivables as at 30 June 2017 and 31 December 2016.

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.

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
(i) Analysis of overdue loans and advances and receivables		
Loans and advances and receivables overdue for more than three months	**57,531**	67,290
Individual impairment allowances	**43,290**	50,911
Current market value and fair value of collateral	**-**	-
(ii) Analysis of impaired loans and advances and receivables		
Impaired loans and advances and receivables	**102,357**	123,742
Individual impairment allowances	**69,719**	84,476
Current market value and fair value of collateral	**-**	-

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

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**-**	-
Covered portion of overdue loans and advances	**-**	-
Uncovered portion of overdue loans and advances	**57,531**	67,290

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.

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(d) Repossessed assets

There was no repossessed asset of the Group as at 30 June 2017 (31 December 2016: Nil).

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

	30 June 2017 (Unaudited)		31 December 2016 (Audited)	
	Gross amount HK$'000	**Percentage of total loans and advances %**	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for three months or less	**196,781**	**3.6**	287,728	5.4
Accrued interest and other receivables overdue for three months or less	**166**		289	

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2017 (Unaudited) Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
As at 1 January 2017	**84,476**	**7,910**	**92,386**
Amounts written off	**(165,098)**	**-**	**(165,098)**
Impairment losses and allowances charged to the consolidated income statement	**150,341**	**13**	**150,354**
Impairment losses and allowances released to the consolidated income statement	**(66,815)**	**(1,908)**	**(68,723)**
Net charge/(release) of impairment losses and allowances	**83,526**	**(1,895)**	**81,631**
Loans and advances and receivables recovered	**66,815**	**-**	**66,815**
As at 30 June 2017	**69,719**	**6,015**	**75,734**
Deducted from:			
Loans and advances and receivables	**69,719**	**6,015**	**75,734**

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2016 (Audited) Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
As at 1 January 2016	72,802	9,175	81,977
Amounts written off	(370,963)	-	(370,963)
Impairment losses and allowances charged to the consolidated income statement	382,637	97	382,734
Impairment losses and allowances released to the consolidated income statement	(134,999)	(1,362)	(136,361)
Net charge / (release) of impairment losses and allowances	247,638	(1,265)	246,373
Loans and advances and receivables recovered	134,999	-	134,999
As at 31 December 2016	84,476	7,910	92,386
Deducted from:			
Loans and advances and receivables	84,476	7,910	92,386

14. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(g) Finance lease receivables

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

	30 June 2017 (Unaudited)	31 December 2016 (Audited)	**30 June 2017 (Unaudited)**	31 December 2016 (Audited)
	Minimum lease payments		**Present value of minimum lease payments**	
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts receivable under finance leases:				
Within one year	**83,313**	78,725	**65,128**	62,019
In the second to fifth years, inclusive	**196,315**	179,823	**138,383**	127,267
Over five years	**750,594**	672,632	**626,085**	560,918
	1,030,222	931,180	**829,596**	750,204
Less: Unearned finance income	**(200,626)**	(180,976)		
Present value of minimum lease payments receivable	**829,596**	750,204		

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.

15. HELD-TO-MATURITY INVESTMENTS

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Unlisted:		
Treasury bills (including Exchange Fund Bills)	**19,989**	19,968
Analysed by type of issuers:		
- Central governments	**19,989**	19,968

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

There were neither impaired nor overdue held-to-maturity investments as at 30 June 2017 and 31 December 2016. There were no listed held-to-maturity investments as at 30 June 2017 and 31 December 2016.

All exposures attributed to the held-to-maturity investments were rated with a grading of Aa2 based on the credit rating of Moody's, an external credit agency, as at 30 June 2017 and 31 December 2016.

16. INVESTMENT PROPERTIES

	HK$'000
At valuation:	
As at 1 January 2016	30,657
Transfer to property and equipment	(698)
Transfer to land held under finance leases	(6,845)
Changes in fair value recognised in consolidated income statement	297
As at 31 December 2016 and 1 January 2017 (Audited)	**23,411**
Changes in fair value recognised in consolidated income statement	**468**
As at 30 June 2017 (Unaudited)	**23,879**

16. INVESTMENT PROPERTIES (Continued)

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 transfer of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (31 December 2016: Nil). The Group has assessed that the highest and best use of its properties did not differ from their existing use.

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

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

	30 June 2017 (Unaudited)		31 December 2016 (Audited)	
	Range HK$	**Weighted average HK$**	Range HK$	Weighted average HK$
Price per square metre	**75,000 to 76,000**	**76,000**	74,000 to 75,000	74,000

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 23(a) to the interim financial statements.

17. PROPERTY AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
As at 1 January 2016	5,549	86,181	1,609	93,339
Additions	-	7,007	-	7,007
Transfer from investment properties	698	-	-	698
Disposals/write-off	-	(3,090)	-	(3,090)
As at 31 December 2016 and 1 January 2017 (Audited)	**6,247**	**90,098**	**1,609**	**97,954**
Additions	**-**	**1,355**	**-**	**1,355**
Disposals/write-off	**-**	**(144)**	**-**	**(144)**
As at 30 June 2017 (Unaudited)	**6,247**	**91,309**	**1,609**	**99,165**
Accumulated depreciation:				
As at 1 January 2016	1,568	74,044	1,609	77,221
Provided during the year	119	6,709	-	6,828
Disposals/write-off	-	(3,080)	-	(3,080)
As at 31 December 2016 and 1 January 2017 (Audited)	**1,687**	**77,673**	**1,609**	**80,969**
Provided during the period	**62**	**2,937**	**-**	**2,999**
Disposals/write-off	**-**	**(108)**	**-**	**(108)**
As at 30 June 2017 (Unaudited)	**1,749**	**80,502**	**1,609**	**83,860**
Net carrying amount:				
As at 30 June 2017 (Unaudited)	**4,498**	**10,807**	**-**	**15,305**
As at 31 December 2016 (Audited)	4,560	12,425	-	16,985

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

18. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
As at 1 January 2016	53,778
Transfer from investment properties	6,845
As at 31 December 2016, 1 January 2017 (Audited) and 30 June 2017 (Unaudited)	**60,623**
Accumulated depreciation and impairment:	
As at 1 January 2016	14,119
Depreciation provided during the year	1,269
As at 31 December 2016 and 1 January 2017 (Audited)	**15,388**
Depreciation provided during the period	**677**
As at 30 June 2017 (Unaudited)	**16,065**
Net carrying amount:	
As at 30 June 2017 (Unaudited)	**44,558**
As at 31 December 2016 (Audited)	45,235

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

19. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Interest receivable from financial institutions	**14**	22
Other debtors, deposits and prepayments	**38,597**	27,393
Amount due from a fellow subsidiary	**601**	771
	39,212	28,186

The amount due from a fellow subsidiary was unsecured, interest-free and repayable on demand.

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

Other liabilities

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Creditors, accruals and interest payable	**87,355**	127,280
Net amount of accounts payable to Hong Kong Securities Clearing Company Limited	**17,847**	23,794
	105,202	151,074

20. CUSTOMER DEPOSITS AT AMORTISED COST

All the customer deposits were time deposits repayable at maturity dates.

21. SHARE CAPITAL

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Issued and fully paid:		
258,800,000 (2016: 258,800,000) ordinary shares	**671,038**	671,038

22. RESERVES

	Regulatory reserve HK$'000	**Retained profits HK$'000**	**Total HK$'000**
As at 1 January 2016	100,747	812,649	913,396
Profit for the year	-	211,064	211,064
Transfer from retained profits	4,137	(4,137)	-
Dividends paid in respect of previous year	-	(121,512)	(121,512)
Dividends paid in respect of current year	-	(110,546)	(110,546)
As at 31 December 2016 and 1 January 2017 (Audited)	**104,884**	**787,518**	**892,402**
Profit for the period	**-**	**124,246**	**124,246**
Transfer from retained profits	**8,273**	**(8,273)**	**-**
Dividends paid in respect of previous year	**-**	**(97,684)**	**(97,684)**
As at 30 June 2017 (Unaudited)	**113,157**	**805,807**	**918,964**

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.

23. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties in note 16 under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

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

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Within one year	**1,077**	1,077
In the second to fifth years, inclusive	**212**	751
	1,289	1,828

(b) As lessee

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

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

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Within one year	**40,179**	32,493
In the second to fifth years, inclusive	**25,292**	17,383
	65,471	49,876

24. CONTINGENT LIABILITIES AND COMMITMENTS

	30 June 2017 (Unaudited)		31 December 2016 (Audited)	
	Contractual amount HK$'000	Credit risk-weighted amount HK$'000	Contractual amount HK$'000	Credit risk-weighted amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position:				
- With an original maturity of not more than one year	**7,473**	**-**	4,124	-
Undrawn loan facilities with an original maturity of not more than one year or which are unconditionally cancellable, granted to:				
- Customers	**6,553**	**-**	2,497	-
	14,026	**-**	6,621	-

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

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

During the period, no derivative activities were transacted by the Group (2016: Nil).

25. 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. As these financial instruments are liquid or having a short term maturity or at variable rate, the carrying amounts are reasonable approximations of their fair values. In the case of loans and unquoted debt securities, their fair values do not reflect changes in their credit quality as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances.

Fixed rate financial instruments
Fixed rate financial instruments include placements with banks and financial institutions, loans and advances and receivables, held-to-maturity investments and customer deposits. 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

There were no financial instruments carried at fair value at 30 June 2017 and 31 December 2016.

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

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

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

26. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	30 June 2017 (Unaudited)							
	Repayable on demand HK$'000	**Up to 1 month HK$'000**	**Over 1 month but not more than 3 months HK$'000**	**Over 3 months but not more than 12 months HK$'000**	**Over 1 year but not more than 5 years HK$'000**	**Over 5 years HK$'000**	**Repayable within an indefinite period HK$'000**	**Total HK$'000**
Financial assets:								
Cash and short term placements	**387,701**	**805,116**	**-**	**-**	**-**	**-**	**-**	**1,192,817**
Loans and advances and receivables (gross)	**24,347**	**245,291**	**414,473**	**1,442,862**	**1,971,573**	**1,380,160**	**102,357**	**5,581,063**
Held-to-maturity investments	**-**	**-**	**19,989**	**-**	**-**	**-**	**-**	**19,989**
Other assets	**-**	**18,522**	**-**	**-**	**-**	**-**	**20,690**	**39,212**
Total financial assets	**412,048**	**1,068,929**	**434,462**	**1,442,862**	**1,971,573**	**1,380,160**	**123,047**	**6,833,081**
Financial liabilities:								
Customer deposits at amortised cost	**27,521**	**1,056,121**	**2,473,664**	**1,576,076**	**3,931**	**-**	**-**	**5,137,313**
Other liabilities	**154**	**43,144**	**6,083**	**2,627**	**7**	**-**	**53,187**	**105,202**
Total financial liabilities	**27,675**	**1,099,265**	**2,479,747**	**1,578,703**	**3,938**	**-**	**53,187**	**5,242,515**
Net liquidity gap	**384,373**	**(30,336)**	**(2,045,285)**	**(135,841)**	**1,967,635**	**1,380,160**	**69,860**	**1,590,566**

	31 December 2016 (Audited)							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Cash and short term placements	415,883	818,146	-	-	-	-	-	1,234,029
Loans and advances and receivables (gross)	30,170	247,657	404,016	1,418,101	1,885,177	1,300,935	123,742	5,409,798
Held-to-maturity investments	-	-	19,968	-	-	-	-	19,968
Other assets	-	7,508	-	-	-	-	20,678	28,186
Total financial assets	446,053	1,073,311	423,984	1,418,101	1,885,177	1,300,935	144,420	6,691,981
Financial liabilities:								
Customer deposits at amortised cost	21,499	971,232	2,395,653	1,586,626	-	-	-	4,975,010
Other liabilities	100	28,691	5,323	2,518	-	-	114,442	151,074
Total financial liabilities	21,599	999,923	2,400,976	1,589,144	-	-	114,442	5,126,084
Net liquidity gap	424,454	73,388	(1,976,992)	(171,043)	1,885,177	1,300,935	29,978	1,565,897

27. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's business activities comprise deposit taking and financing. These activities expose the Group to a variety of risks, mainly interest rate risk, market risk, credit risk, liquidity risk and operational risk. The Board reviews and approves policies for managing each of these risks and they are summarised below.

Risk Management Structure

The Group's risk management is underpinned by the Group's risk appetite and is subject to the Board's oversight, through the Risk Management Committee ("RMC"), a Board Committee which oversees the establishment of enterprise-wide risk management policies and processes. The RMC is assisted by the specific risk oversight committees including the Assets and Liabilities Management Committee ("ALCO"), Operational Risk Management Committee ("ORMC"), Credit Committee, Anti-Money Laundering Committee and Compliance Working Group of the Company.

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 Board and reviewed regularly by the Group's management, and other designated committees or working groups. Material risks are identified and assessed by designated committees and/or working groups before the launch of new products or business activities, and are monitored, documented and controlled against applicable risk limits after the introduction of new products or services or implementation of new business activities. Internal auditors of the Company also perform regular audits to ensure compliance with the policies and procedures.

Interest Rate Risk Management

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

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

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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. All foreign exchange positions are managed by Accounts Department within limits approved by the Board.

The Group has limited foreign currency risk as the Group's assets and liabilities were mainly denominated in Hong Kong Dollars ("HKD") for the period ended 30 June 2017 and for the year ended 31 December 2016. Directors considered that currency risk was insignificant to the Group. Accordingly, no quantitative market risk disclosures for currency risk have been made.

(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 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.

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit Risk Management

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

The Group has a credit risk management process to measure, monitor and control credit risk. Its Credit Policy Manual defines the credit extension and measurement criteria, credit reviews, approval and monitoring processes, and the loan classification and provisioning systems. It has a hierarchy of credit authority which approves credit in compliance with the Group's credit policy. Credit risk exposures are measured and monitored against credit limits and other control limits (such as connected exposures, large exposures and risk concentration limits approved by the Board 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 exposure defines and states connected parties, statutory and applicable connected lending limits, types of connected transactions, the taking of collateral, the capital adequacy treatment, and detailed procedures and controls for monitoring connected lending exposures. In general, interest rates and other terms and conditions applying to connected lending should not be more favourable than those loans offered to non-connected borrowers under similar circumstances. The terms and conditions should be determined on normal commercial terms at arm's length and in the ordinary course of business of the Group.

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

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

Credit Committee monitors 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.

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit Risk Management (Continued)

Credit Committee also monitors 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.

RMC is responsible for establishing the framework for identifying, measuring, monitoring and controlling the credit risk of existing and new products, and reviewing credit risk management policies and credit risk tolerance limits.

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

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

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

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 Board or committees delegated by the Board. The Board is responsible for exercising management oversight over the liquidity risk management framework of the Group.

ALCO monitors the liquidity position as part of the ongoing management of assets and liabilities, and sets up trigger limits to monitor liquidity risk. It also closely monitors 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.

Accounts Department is responsible for carrying out the strategies and policies approved by the dedicated committees and the Board, 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 Department is responsible for day-to-day monitoring of liquidity maintenance ratio, loans to deposits ratio, 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 are appropriately identified, measured, assessed and reported. It also carries out analysis based on risk-based management reports, summarise the data from those reports and presents the key information to ALCO 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 are identified from the aforesaid management reports or market information obtained from other business units, a designated ALCO member will convene a meeting (involving senior management members) to discuss risk related matters and propose actions to ALCO whenever necessary. A high level summary of liquidity risk performance will be presented by ALCO to RMC and the Board.

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management (Continued)

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

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

Contingency funding plan is formulated to address liquidity needs under different stages including the mechanism for the detection of early warning signals of potential crisis at early stage and obtaining of 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 cash and treasury bills issued by eligible central governments to address critical and emergent liquidity needs on intraday basis and over other different time horizons. The Group is not subject to particular collateral arrangements or requirements in contracts if there is a credit rating downgrade of entities within the Group.

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management (Continued)

Apart from cash-flow projections under normal scenario to manage liquidity under different time horizons, different 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 Board. 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 retail loan delinquencies. Regarding cash-outflow projection, part of undrawn loan facilities are not to be utilised by borrowers or honoured by the Group. Core deposits ratio would decrease as 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 treasury bills 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.

Liquidity maintenance ratio

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

	For the six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Average liquidity maintenance ratio	**79.7%**	67.7%

The Company 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 solo 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.

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Operational Risk Management

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

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

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management

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

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

Capital adequacy ratios

The capital adequacy ratios of the Company 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 Company has adopted the standardised approach for the calculation of credit risk-weighted exposures, market risk-weighted exposures and operational risk-weighted exposures. The Company is granted an exemption by the HKMA for the calculation of market risk exposures which are immaterial to the Company.

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
CET1 Capital Ratio	**22.2%**	22.9%
Tier 1 Capital Ratio	**22.2%**	22.9%
Total Capital Ratio	**23.2%**	23.9%

The above capital ratios are higher than the minimum capital ratios required by the HKMA. The capital adequacy ratios above are calculated after the deduction of proposed dividends.

NOTES TO INTERIM FINANCIAL STATEMENTS

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

Capital disclosures

The components of capital base include the following items:

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
CET1 capital instruments	**671,038**	671,038
Retained earnings	**539,616**	547,420
Disclosed reserves	**113,157**	104,884
CET1 capital before deduction	**1,323,811**	1,323,342
Deduct:		
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	**(7,946)**	(7,478)
Regulatory reserve for general banking risk	**(113,157)**	(104,884)
Deferred tax assets in excess of deferred tax liabilities	**(7,523)**	(10,506)
CET1 capital after deduction	**1,195,185**	1,200,474
Additional Tier 1 capital	**-**	-
Tier 1 capital after deductions	**1,195,185**	1,200,474
Reserve attributable to fair value gains	**3,576**	3,365
Regulatory reserve for general banking risk	**45,419**	41,766
Collective provisions	**6,015**	7,910
	51,434	49,676
Tier 2 capital	**55,010**	53,041
Capital base	**1,250,195**	1,253,515

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

Capital conservation buffer (CCB)

The Company is subject to the 2.5% CCB ratio which has been phased-in from 2016. The applicable CCB ratio effective from 1 January 2017 is 1.25%. The Company 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 Company has reserved a capital buffer for the implementation of CCyB ratio, inclusive of CCyB ratio of 1.25%, to the private sector credit exposures in Hong Kong that has been applied since 1 January 2017.

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

As at 30 June 2017 (Unaudited)

Jurisdiction (J)	**Applicable JCCyB ratio in effect %**	**Total RWA used in computation of CCyB ratio HK$'000**	**CCyB ratio %**	**CCyB amount HK$'000**
Hong Kong	**1.25**	**3,916,620**	**1.25**	**48,958**

As at 31 December 2016 (Audited)

Jurisdiction	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK$'000	CCyB ratio %	CCyB amount HK$'000
Hong Kong	0.625	3,779,942	0.625	23,625

27. 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 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Tier 1 Capital	**1,195,185**	1,200,474
Exposure Measure for Leverage Ratio	**6,533,080**	6,350,857
Leverage Ratio	**18.3%**	18.9%

The disclosure on leverage ratio is effective since 31 March 2015 and the relevant disclosures can be viewed in the "Regulatory Disclosures" section on the Company's website: www.publicfinance.com.hk on or before 30 September 2017.

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 capital adequacy ratios of the Company are Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited.

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

27. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

Capital instruments

To comply with the Banking (Disclosure) Rules, the Company will present all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Company's published interim financial statements under "Regulatory Disclosures" section on the Company's website: www.publicfinance.com.hk on or before 30 September 2017.

The disclosure will include the following information:

- a description of the main features and full terms and conditions of the Company's capital instruments;
- a detailed breakdown of the Company'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 Company's accounting and regulatory balance sheets, using the standard disclosure template as specified by the HKMA.

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

	Note	**30 June 2017 (Unaudited) HK$'000**	31 December 2016 (Audited) HK$'000
CET1 capital instruments issued			
Ordinary shares:			
258,800,000 issued and fully paid ordinary shares	21	**671,038**	671,038

Pillar 3 disclosures

Further disclosures with respect to capital adequacy and risk management were shown in the Pillar 3 disclosures templates as required by Banking (Disclosure) Rules. The Company will publish the Pillar 3 disclosures for the 2nd quarter ended 30 June 2017 under "Regulatory Disclosures" section on the Company's website at www.publicfinance.com.hk on or before 30 September 2017.

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 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	5,763	6	-	-	-	-	-	-	-
Building and construction, property development and investment									
Property development	312	-	-	-	-	-	-	-	-
Property investment	16,409	12	-	6	-	16,409	100.0	-	-
Civil engineering works	12,821	13	-	-	-	100	0.8	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	62	-	-	-	-	-	-	-	-
Information technology	-	-	-	-	-	-	-	-	-
Wholesale and retail trade	30,651	36	-	10	56	1,615	5.3	-	-
Transport and transport equipment	773,121	77	-	6	-	772,911	100.0	-	-
Hotels, boarding houses and catering	-	-	-	-	-	-	-	-	-
Financial concerns	-	-	-	-	-	-	-	-	-
Stockbrokers	-	-	-	-	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-
Loans for the purchase of other residential properties	900,713	91	-	1	-	900,713	100.0	-	-
Loans for credit card advances	-	-	-	-	-	-	-	-	-
Loans for other business purposes	-	-	-	-	-	-	-	-	-
Loans for other private purposes	3,774,419	5,604	69,208	148,794	162,926	47,418	1.3	101,716	56,890
Trade finance	-	-	-	-	-	-	-	-	-
Other loans and advances	-	-	-	-	-	-	-	-	-
Loans and advances for use outside Hong Kong	23,454	78	511	1,537	2,116	200	0.9	641	641
Total loans and advances (excluding other receivables)	5,537,725	5,917	69,719	150,354	165,098	1,739,366	31.4	102,357	57,531

SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited)

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

	31 December 2016								
	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	6,737	17	-	760	760	-	-	-	-
Building and construction, property development and investment									
Property development	448	1	-	1	-	-	-	-	-
Property investment	12,636	6	-	2	-	12,636	100.0	-	-
Civil engineering works	8,933	18	-	-	-	100	1.1	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	110	-	-	-	-	-	-	-	-
Information technology	-	-	-	-	-	-	-	-	-
Wholesale and retail trade	29,392	57	46	110	64	1,749	6.0	62	62
Transport and transport equipment	696,273	71	-	5	-	695,913	99.9	-	-
Hotels, boarding houses and catering	-	-	-	-	-	-	-	-	-
Financial concerns	-	-	-	-	-	-	-	-	-
Stockbrokers	-	-	-	-	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-
Loans for the purchase of other residential properties	889,727	90	-	4	-	889,727	100.0	-	-
Loans for credit card advances	-	-	-	-	-	-	-	-	-
Loans for other business purposes	-	-	-	-	-	-	-	-	-
Loans for other private purposes	3,689,612	7,538	83,340	379,177	368,183	44,886	1.2	122,835	66,383
Trade finance	-	-	-	-	-	-	-	-	-
Other loans and advances	-	-	-	-	-	-	-	-	-
Loans and advances for use outside Hong Kong	29,493	112	1,090	2,675	1,956	200	0.7	845	845
Total loans and advances (excluding other receivables)	5,363,361	7,910	84,476	382,734	370,963	1,645,211	30.7	123,742	67,290

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) MAINLAND ACTIVITIES

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

Type of counterparties	**On-balance sheet exposure HK$'000**	**Off-balance sheet exposure HK$'000**	**Total HK$'000**
As at 30 June 2017			
People's Republic of China ("PRC") nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**8,480**	**-**	**8,480**
Total	**8,480**	**-**	**8,480**
Total assets after provision	**6,655,036**		
On-balance sheet exposures as percentage of total assets	**0.13%**		

Type of counterparties	On-balance sheet exposure HK$'000	Off-balance sheet exposure HK$'000	Total HK$'000
As at 31 December 2016			
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	10,060	-	10,060
Total	10,060	-	10,060
Total assets after provision	6,454,565		
On-balance sheet exposures as percentage of total assets	0.16%		

Note:

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

SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited)

(C) 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.

As at 30 June 2017 and 31 December 2016, the Company had no international claims on foreign counterparties.

BUSINESS PERFORMANCE

The Group recorded a profit after tax of HK$124.2 million for the six months ended 30 June 2017, representing an increase of HK$12.4 million or 11.0% when compared to the corresponding period of last year. Interest income increased by HK$0.8 million or 0.2% to HK$424.2 million and interest expense increased by HK$6.0 million or 19.8% to HK$36.6 million when compared to the corresponding period of last year. Non-interest income increased by HK$0.9 million or 1.6% to HK$56.4 million mainly due to the increase in stock brokerage income when compared to the corresponding period of last year.

The Group's operating expenses increased by HK$19.1 million or 9.8% to HK$213.6 million mainly due to higher staff costs and marketing expenses. Impairment allowances for loans and advances decreased by HK$38.1 million or 31.8% to HK$81.6 million mainly due to the decrease in bad debts from consumer financing loans.

Total gross loans and advances of the Group increased by HK$174.4 million or 3.3% to HK$5.54 billion as at 30 June 2017 from HK$5.36 billion as at 31 December 2016. Total customer deposits grew by HK$162.3 million or 3.3% to HK$5.14 billion as at 30 June 2017 from HK$4.98 billion as at 31 December 2016. The impaired loan ratio improved to 1.85% as at 30 June 2017 from 2.31% as at 31 December 2016.

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

20 July 2017