大眾金融控股有限公司

PUBLIC FINANCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability) Stock Code: 626

Excellence

is our commitment

INTERIM REPORT 2023

PUBLIC FINANCIAL HOLDINGS LIMITED
INTERIM REPORT 2023

Contents

Corporate Information

BOARD OF DIRECTORS

Non-Executive Chairman
Lai Wan

Executive Director
Tan Yoke Kong

Non-Executive Directors
Cheah Kim Ling
Dato' Chang Kat Kiam
Quah Poh Keat
Chong Yam Kiang

Independent Non-Executive Directors
Lee Chin Guan
Lim Chao Li
Phe Kheng Peng

JOINT SECRETARIES

Tan Yoke Kong
Chan Sau Kuen

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

2/F, Public Bank Centre
120 Des Voeux Road Central
Central, Hong Kong
Telephone : (852) 2541 9222
Facsimile : (852) 2815 9232
Website : www.publicfinancial.com.hk

SHARE LISTING

Main Board of The Stock Exchange of Hong Kong Limited
Stock Code : 626

PRINCIPAL REGISTRAR

MUFG Fund Services (Bermuda) Limited
4th Floor North, Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

HONG KONG BRANCH REGISTRAR

Tricor Tengis Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong
Telephone : (852) 2980 1333
Facsimile : (852) 2810 8185

AUDITORS

Ernst & Young
Certified Public Accountants

Condensed Consolidated Income Statement

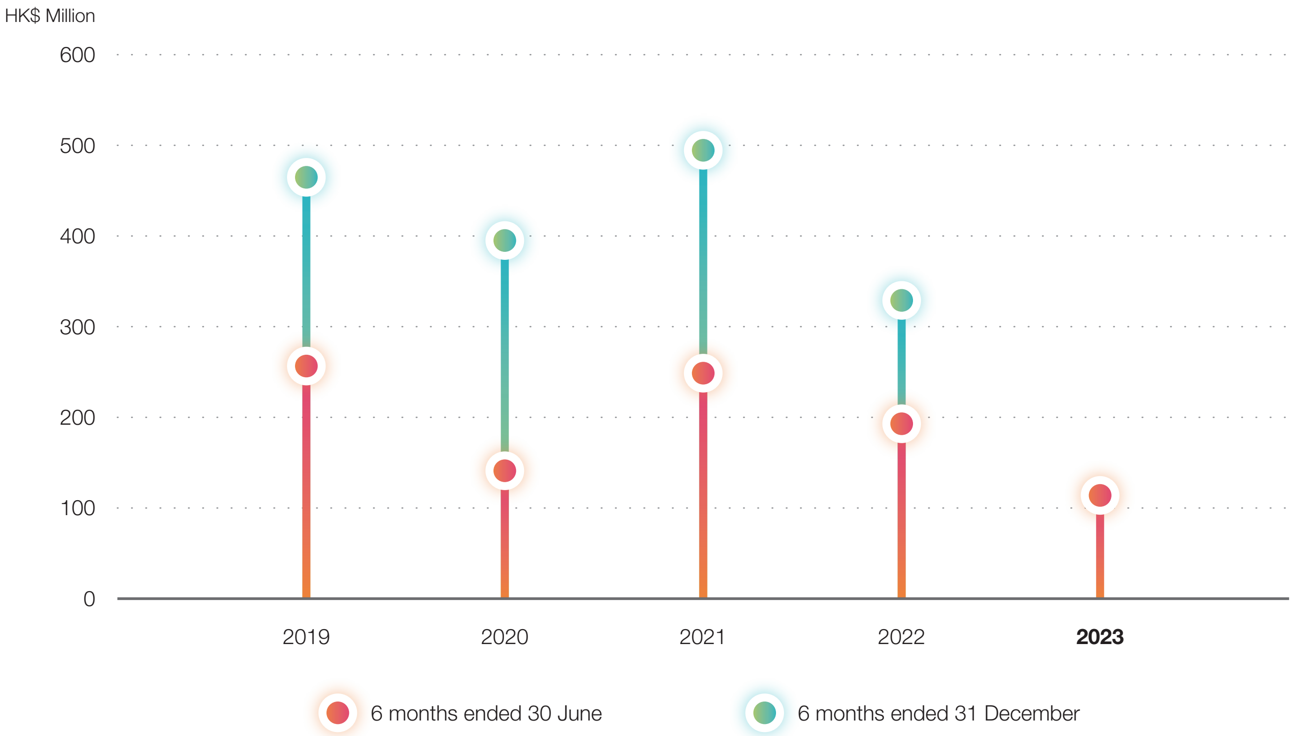
	Notes	For the six months ended 30 June **2023** **(Unaudited)** **HK$'000**	 2022 (Unaudited) HK$'000
Interest income	7	**950,446**	694,666
Interest expense	7	**(443,358)**	(88,694)
NET INTEREST INCOME		**507,088**	605,972
Fees and commission income	8	**116,911**	88,183
Fees and commission expenses	8	**(1,013)**	(821)
Net fees and commission income		**115,898**	87,362
Other operating income	9	**18,913**	20,772
OPERATING INCOME		**641,899**	714,106
Operating expenses	10	**(425,236)**	(412,339)
Changes in fair value of investment properties		**6,570**	(2,176)
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		**223,233**	299,591
Credit loss expenses	11	**(79,851)**	(61,852)
PROFIT BEFORE TAX		**143,382**	237,739
Tax	12	**(29,629)**	(44,420)
PROFIT FOR THE PERIOD		**113,753**	193,319
ATTRIBUTABLE TO:			
Owners of the Company		**113,753**	193,319
EARNINGS PER SHARE (HK$)	14		
Basic		**0.104**	0.176
Diluted		**0.104**	0.176

Condensed Consolidated Statement of Comprehensive Income

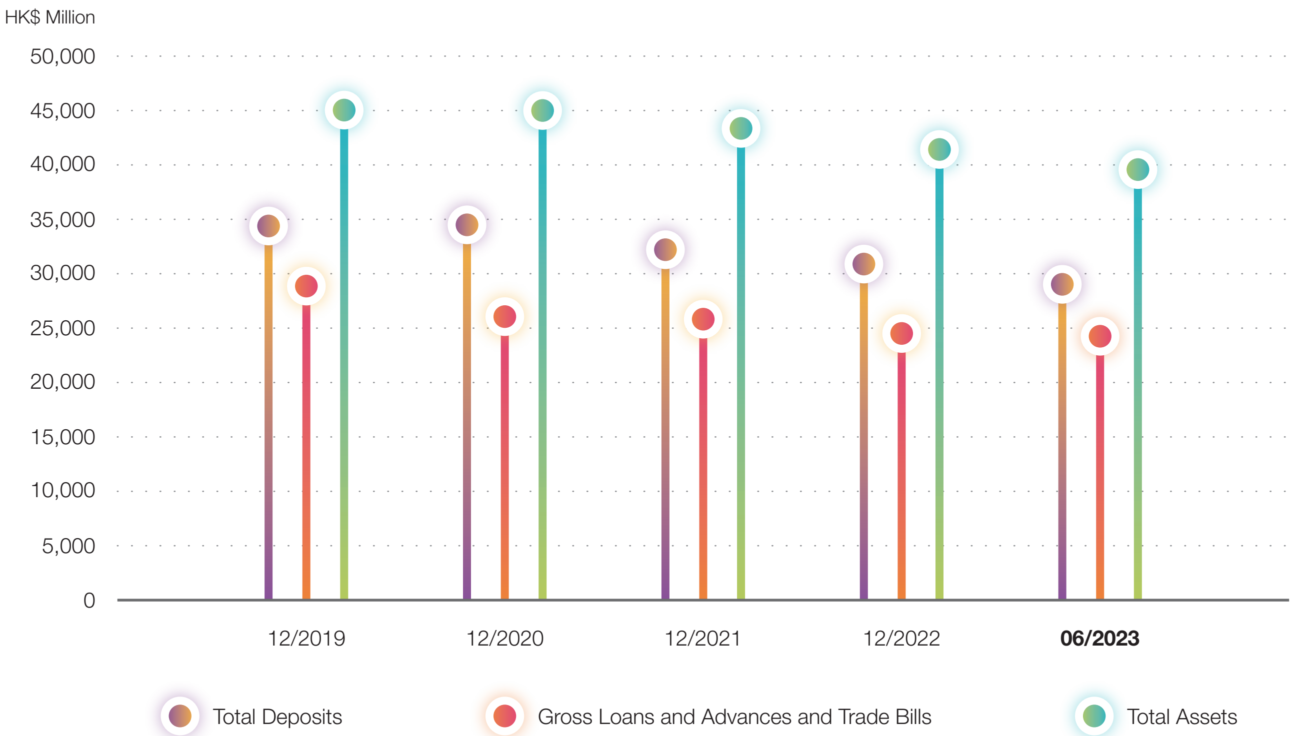
	For the six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT FOR THE PERIOD	**113,753**	193,319
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations, net of tax	**(46,431)**	(42,867)
Surplus on revaluation of properties	**74,581**	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**141,903**	150,452
ATTRIBUTABLE TO:		
Owners of the Company	**141,903**	150,452

Five-year Financial Summary

Profit



Financial Position



Condensed Consolidated Statement of Financial Position

	Notes	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
ASSETS			
Cash and short term placements	15	**1,911,364**	3,406,271
Placements with banks and financial institutions maturing after one month but not more than twelve months	16	**1,781,632**	1,826,570
Derivative financial instruments		**1,930**	343
Loans and advances and receivables	17	**24,334,849**	24,679,582
Equity investments at fair value through other comprehensive income	18	**6,804**	6,804
Held-to-collect debt securities at amortised cost	19	**7,364,303**	7,437,495
Investment properties	20	**562,385**	429,315
Property and equipment	21	**184,421**	190,263
Land held under finance leases	22	**675,763**	732,909
Right-of-use assets		**99,143**	106,895
Deferred tax assets		**38,999**	36,388
Tax recoverable		**11,901**	26,183
Goodwill		**2,774,403**	2,774,403
Intangible assets	23	**718**	718
Other assets	24	**212,868**	263,792
TOTAL ASSETS		**39,961,483**	41,917,931
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**525,138**	497,157
Derivative financial instruments		**7,866**	2,002
Customer deposits at amortised cost	25	**28,592,897**	30,446,412
Dividends payable		**32,938**	120,771
Unsecured bank loans at amortised cost	26	**1,513,000**	1,552,087
Lease liabilities		**104,123**	110,745
Current tax payable		**3,087**	52,136
Deferred tax liabilities		**49,739**	49,767
Other liabilities	24	**379,150**	442,274
TOTAL LIABILITIES		**31,207,938**	33,273,351

Condensed Consolidated Statement of Financial Position

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Issued capital	**109,792**	109,792
Reserves	**8,643,753**	8,534,788
TOTAL EQUITY	**8,753,545**	8,644,580
TOTAL EQUITY AND LIABILITIES	**39,961,483**	41,917,931

Condensed Consolidated Statement of Changes in Equity

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Property revaluation reserve HK$'000	Regulatory reserve[#] HK$'000	Retained profits HK$'000	Translation reserve HK$'000	Total HK$'000
As at 1 January 2023	109,792	4,013,296	829	96,116	3,982	46,153	4,371,841	2,571	8,644,580
Profit for the period	–	–	–	–	–	–	113,753	–	113,753
Other comprehensive income	–	–	–	–	74,581	–	–	(46,431)	28,150
Transfer from retained profits to regulatory reserve	–	–	–	–	–	882	(882)	–	–
Dividends declared	–	–	–	–	–	–	(32,938)	–	(32,938)
As at 30 June 2023 (Unaudited)	109,792	4,013,296	829	96,116	78,563	47,035	4,451,774	(43,860)	8,753,545

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Property revaluation reserve HK$'000	Regulatory reserve[#] HK$'000	Retained profits HK$'000	Translation reserve HK$'000	Total HK$'000
As at 1 January 2022	109,792	4,013,296	829	96,116	3,982	54,812	4,210,152	80,329	8,569,308
Profit for the period	–	–	–	–	–	–	193,319	–	193,319
Other comprehensive income	–	–	–	–	–	–	–	(42,867)	(42,867)
Transfer from regulatory reserve to retained profits	–	–	–	–	–	(8,592)	8,592	–	–
Dividends declared	–	–	–	–	–	–	(54,896)	–	(54,896)
As at 30 June 2022 (Unaudited)	109,792	4,013,296	829	96,116	3,982	46,220	4,357,167	37,462	8,664,864
Profit for the period	–	–	–	–	–	–	135,378	–	135,378
Other comprehensive income	–	–	–	–	–	–	–	(34,891)	(34,891)
Transfer from regulatory reserve to retained profits	–	–	–	–	–	(67)	67	–	–
Dividends declared	–	–	–	–	–	–	(120,771)	–	(120,771)
As at 31 December 2022 (Audited)	109,792	4,013,296	829	96,116	3,982	46,153	4,371,841	2,571	8,644,580

[#] *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 guidelines issued by the Hong Kong Monetary Authority ("HKMA").*

Condensed Consolidated Statement of Cash Flows

	Notes	For the six months ended 30 June 2023 (Unaudited) HK$'000	2022 (Unaudited) HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**143,382**	237,739
Adjustments for:			
Dividend income from listed investments	9	**(102)**	(101)
Dividend income from unlisted investments	9	**(35)**	(35)
Depreciation of property and equipment and land held under finance leases	10	**22,839**	21,858
Depreciation of right-of-use assets	10	**28,969**	29,726
Other interest expenses	7	**1,295**	1,332
Gain on termination of leases	9	**–**	(1,460)
Payment of dismantling costs		**(176)**	(125)
Net losses on disposal of property and equipment	9	**25**	28
Increase in credit loss expenses for loans and advances and receivables		**14,466**	9,608
(Decrease)/increase in credit loss expenses for held-to-collect debt securities at amortised cost and bank placements		**(164)**	51
(Increase)/decrease in fair value of investment properties		**(6,570)**	2,176
Exchange differences		**(44,345)**	(41,911)
Profits tax paid		**(69,150)**	(52,427)
Operating profit before changes in operating assets and liabilities		**90,434**	206,459
Decrease in operating assets:			
Decrease/(increase) in placements with banks and financial institutions		**22,969**	(174,966)
Decrease in loans and advances and receivables		**330,267**	1,067,895
Increase in held-to-collect debt securities at amortised cost		**(26,668)**	(132,191)
Decrease/(increase) in other assets		**50,924**	(252,950)
Increase in derivative financial instruments		**(1,587)**	(109)
		375,905	507,679
Decrease in operating liabilities:			
Increase/(decrease) in deposits and balances of banks and other financial institutions at amortised cost		**27,981**	(94,759)
Decrease in customer deposits at amortised cost		**(1,853,515)**	(371,816)
Increase/(decrease) in derivative financial instruments		**5,864**	(4,037)
(Decrease)/increase in other liabilities		**(63,275)**	230,766
		(1,882,945)	(239,846)
Net cash (outflow)/inflow from operating activities		**(1,416,606)**	474,292

Condensed Consolidated Statement of Cash Flows

	Notes	For the six months ended 30 June 2023 (Unaudited) HK$'000	2022 (Unaudited) HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	21	**(11,795)**	(15,518)
Purchase of land held under finance leases	22	**–**	(70,822)
Dividends received from listed investments	9	**102**	101
Dividends received from unlisted investments	9	**35**	35
Net cash outflow from investing activities		**(11,658)**	(86,204)
CASH FLOWS FROM FINANCING ACTIVITIES			
New unsecured bank loans		**–**	1,140,000
Repayment of unsecured bank loans		**(39,087)**	(1,167,862)
Repayment of lease liabilities		**(28,778)**	(29,223)
Dividends paid on shares		**(120,771)**	(164,687)
Net cash outflow from financing activities		**(188,636)**	(221,772)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(1,616,900)**	166,316
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**4,301,852**	5,166,068
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**2,684,952**	5,332,384
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand	31	**754,534**	1,246,743
Money at call and short notice with an original maturity within three months		**1,157,006**	3,059,672
Placements with banks and financial institutions with an original maturity within three months		**680,133**	1,025,969
Held-to-collect debt securities at amortised cost with an original maturity within three months		**93,279**	–
		2,684,952	5,332,384
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		**(397,861)**	(81,258)
Interest received		**918,730**	696,433

Notes to Interim Financial Statements

1. CORPORATE AND GROUP INFORMATION

Public Financial Holdings Limited (the "Company") is incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company is a limited liability company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 626).

During the period, the principal activities of the Company and its subsidiaries (collectively, the "Group") were the provision of a comprehensive range of banking and financial services, stockbroking, the letting of investment properties, the provision of financing to purchasers of taxis and public light buses, the trading of taxi cabs and taxi licences, and the leasing of taxis.

In the opinion of the Directors, the holding company and the ultimate holding company of the Company is Public Bank Berhad ("Public Bank"), which is incorporated in Malaysia.

Particulars of the Company's subsidiaries are as follows:

Name	Issued ordinary share capital HK$	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Public Bank (Hong Kong) Limited	2,854,045,000	100	–	Provision of banking and financial services
Public Bank (Nominees) Limited	100,000	–	100	Provision of nominee services
Public Futures Limited	2	–	100	Dormant
Public Financial Securities Limited	48,000,000	–	100	Securities brokerage
Public Finance Limited	671,038,000	–	100	Deposit-taking and financing
Public Financial Limited	10,100,000	–	100	Investment holding
Public Securities Limited	10,000,000	–	100	Securities brokerage
Public Securities (Nominees) Limited	10,000	–	100	Provision of nominee services
Winton (B.V.I.) Limited	61,773	100	–	Investment holding
Winton Financial Limited	4,000,010	–	100	Provision of personal and property mortgage loans, and financing of licensed public vehicles such as taxis
Winton Motors, Limited	78,000	–	100	Trading of taxi cabs, taxi licences and leasing of taxis

Notes:

1. *Except for Winton (B.V.I.) Limited, which is incorporated in the British Virgin Islands, all subsidiaries are incorporated in Hong Kong.*

2. *Except for Public Bank (Hong Kong) Limited, which operates in Hong Kong and Mainland China, all subsidiaries operate in Hong Kong.*

Notes to Interim Financial Statements

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and in compliance with the Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They also contain certain disclosure information required under the Banking (Disclosure) Rules issued by the HKMA.

The interim financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group's 2022 Annual Report.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's 2022 Annual Report, except for the changes in accounting policies as set out in note 5 below.

3. BASIS OF CONSOLIDATION

The unaudited interim condensed consolidated financial statements include the interim financial statements of the Company and its subsidiaries for the period ended 30 June 2023.

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:

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

(b) rights arising from other contractual arrangements; and

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

The 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.

3. BASIS OF CONSOLIDATION (Continued)

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 purposes are Public Bank (Hong Kong) Limited ("Public Bank (Hong Kong)"), Public Finance Limited ("Public Finance"), Winton (B.V.I.) Limited and their subsidiaries.

4. BASIS OF CAPITAL DISCLOSURES

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

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

The computation of the consolidated total capital ratio and other regulatory capital ratios is based on the consolidation of Public Bank (Hong Kong) and Public Finance for regulatory reporting purposes.

There are no major restrictions or impediments on the transfer of capital or funds among the members of the Company's consolidation group except that liquidity, capital and other performance indicators of Public Financial Securities Limited and Public Securities Limited should satisfy the minimum requirements of the Securities and Futures (Financial Resources) Rules issued by the Securities and Futures Commission ("SFC") of Hong Kong.

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

The Group has adopted the provisions of the Banking Ordinance relating to the Basel III capital standards and the Banking (Capital) Rules (the "Capital Rules"). The Capital Rules outline the general requirements on regulatory capital ratios, the components of eligible regulatory capital as well as the levels of those ratios at which banking institutions are required to operate. The Capital Rules have been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision. Under the Capital Rules, the required capital conservation buffer ("CCB") ratio for 2022 and 2023 is 2.5%, whilst the required countercyclical capital buffer ("CCyB") ratio for 2022 and 2023 is 1.0%.

Notes to Interim Financial Statements

5. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The HKICPA has issued several new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are generally effective for accounting periods beginning on or after 1 January 2023. The Group adopted the following new and revised standards for the first time for the interim financial statements:

• HKFRS 17	*Insurance Contracts*
• Amendments to HKFRS 17	*Insurance Contracts*
• Amendments to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information*
• Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
• Amendments to HKAS 8	*Definition of Accounting Estimates*
• Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
• Amendments to HKAS 12	*International Tax Reform – Pillar Two Model Rules*

The nature and impact of the new and revised HKFRSs that are applicable to the Group are described below.

Amendments to HKAS 1 and HKFRS Practice Statement 2 – *Disclosure of Accounting Policies*

Amendments to HKAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make based on those financial statements. Amendments to HKFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has revised its accounting policy disclosures to ensure consistency with the amendments.

Amendments to HKAS 8 – *Definition of Accounting Estimates*

Amendments to HKAS 8 *Definition of Accounting Estimates* clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. These amendments have no impact on the Group's interim financial statements as there were no changes in accounting policies and changes in accounting estimates fallen within the scope of these amendments arisen during the period.

Amendments to HKAS 12 – *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments apply to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments are applied prospectively to transactions other than leases and decommissioning obligations. These amendments have no impact on the Group's interim financial statements as there were no transactions fallen within the scope of these amendments on or after the beginning of the earliest period presented.

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

Amendments to HKAS 12 – *International Tax Reform – Pillar Two Model Rules*

Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

Issued but not yet effective HKFRSs

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

• Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[1]
• Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[2]
• Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current (the "2020 Amendments")*[2]
• Amendments to HKAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")*[2]

1 *No mandatory effective date yet determined but available for adoption*

2 *Effective for annual periods beginning on or after 1 January 2024*

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

Amendments to HKFRS 10 and HKAS 28 (2011) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to Interim Financial Statements

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

Amendments to HKFRS 16 *Lease Liability in a Sale and Leaseback* specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e. 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered as a settlement of a liability. In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

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 that is measured net of associated direct expenses. A summary of the operating segments is as follows:

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

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

- other businesses segment comprises taxi trading, leasing of taxis and 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 2023 and 30 June 2022.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	For the six months ended 30 June 2023 (Unaudited) HK$'000	For the six months ended 30 June 2022 (Unaudited) HK$'000	**For the six months ended 30 June 2023 (Unaudited) HK$'000**	For the six months ended 30 June 2022 (Unaudited) HK$'000	**For the six months ended 30 June 2023 (Unaudited) HK$'000**	For the six months ended 30 June 2022 (Unaudited) HK$'000	**For the six months ended 30 June 2023 (Unaudited) HK$'000**	For the six months ended 30 June 2022 (Unaudited) HK$'000
Segment revenue								
External:								
Net interest income/(expense)	**508,705**	606,033	**(1,617)**	(61)	**–**	–	**507,088**	605,972
Net fees and commission income	**59,484**	58,654	**56,414**	28,708	**–**	–	**115,898**	87,362
Other operating income/(expense)	**9,327**	13,076	**(23)**	223	**9,609**	7,473	**18,913**	20,772
Operating income	**577,516**	677,763	**54,774**	28,870	**9,609**	7,473	**641,899**	714,106
Operating profit/(loss) after credit loss expenses before tax	**119,088**	231,094	**15,055**	8,575	**9,239**	(1,930)	**143,382**	237,739
Tax							**(29,629)**	(44,420)
Profit for the period							**113,753**	193,319
Other segment information								
Depreciation of property and equipment and land held under finance leases	**(22,839)**	(21,858)	**–**	–	**–**	–	**(22,839)**	(21,858)
Depreciation of right-of-use assets	**(28,969)**	(29,726)	**–**	–	**–**	–	**(28,969)**	(29,726)
Changes in fair value of investment properties	**–**	–	**–**	–	**6,570**	(2,176)	**6,570**	(2,176)
Credit loss expenses	**(79,851)**	(61,852)	**–**	–	**–**	–	**(79,851)**	(61,852)
Net losses on disposal of property and equipment	**(25)**	(28)	**–**	–	**–**	–	**(25)**	(28)

Notes to Interim Financial Statements

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table discloses certain assets and liabilities information regarding operating segments as at 30 June 2023 and 31 December 2022.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000	**30 June 2023 (Unaudited) HK$'000**	31 December 2022 (Audited) HK$'000	**30 June 2023 (Unaudited) HK$'000**	31 December 2022 (Audited) HK$'000	**30 June 2023 (Unaudited) HK$'000**	31 December 2022 (Audited) HK$'000
Segment assets other than intangible assets and goodwill	**36,210,871**	38,204,199	**362,039**	446,697	**562,552**	429,343	**37,135,462**	39,080,239
Intangible assets	**–**	–	**718**	718	**–**	–	**718**	718
Goodwill	**2,774,403**	2,774,403	**–**	–	**–**	–	**2,774,403**	2,774,403
Segment assets	**38,985,274**	40,978,602	**362,757**	447,415	**562,552**	429,343	**39,910,583**	41,855,360
Unallocated assets:								
Deferred tax assets and tax recoverable							**50,900**	62,571
Total assets							**39,961,483**	41,917,931
Segment liabilities	**31,045,190**	32,895,093	**70,546**	149,267	**6,438**	6,317	**31,122,174**	33,050,677
Unallocated liabilities:								
Deferred tax liabilities and tax payable							**52,826**	101,903
Dividends payable							**32,938**	120,771
Total liabilities							**31,207,938**	33,273,351
Other segment information								
Additions to non-current assets – capital expenditure	**11,795**	184,617	**–**	–	**–**	–	**11,795**	184,617

6. SEGMENT INFORMATION (Continued)

Geographical information

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

The following table discloses the segment revenue information for geographical segments for the six months ended 30 June 2023 and 30 June 2022.

	For the six months ended 30 June	
	2023 (Unaudited) HK$'000	2022 (Unaudited) HK$'000
Segment revenue from external customers:		
Hong Kong	**582,189**	659,965
Mainland China	**59,710**	54,141
	641,899	714,106

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

The following table discloses the non-current assets information for geographical segments as at 30 June 2023 and 31 December 2022.

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Non-current assets:		
Hong Kong	**4,274,606**	4,209,104
Mainland China	**22,227**	25,399
	4,296,833	4,234,503

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

Operating income or revenue from major customers

Operating income or revenue from transactions with each external customer amounted to less than 10% (2022: less than 10%) of the Group's total operating income or revenue.

Notes to Interim Financial Statements

7. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**741,724**	648,000
Short term placements and placements with banks	**76,713**	23,373
Held-to-collect debt securities at amortised cost	**132,009**	23,293
	950,446	694,666
Interest expense on:		
Deposits from banks and financial institutions	**12,784**	1,345
Deposits from customers	**393,104**	75,541
Bank loans	**36,175**	10,476
Others	**1,295**	1,332
	443,358	88,694

Interest income and interest expense for the six months ended 30 June 2023, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss ("FVPL"), amounted to HK$950,446,000 and HK$443,358,000 (2022: HK$694,666,000 and HK$88,694,000) respectively.

Notes to Interim Financial Statements

8. NET FEES AND COMMISSION INCOME

	For the six months ended 30 June	
	2023 **(Unaudited)** **HK$'000**	2022 (Unaudited) HK$'000
Fees and commission income:		
Retail and commercial banking	**60,497**	59,475
Wealth management services, stockbroking and securities management	**56,414**	28,708
	116,911	88,183
Less: Fees and commission expenses	**(1,013)**	(821)
	115,898	87,362

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

Notes to Interim Financial Statements

9. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2023 **(Unaudited)** **HK$'000**	2022 (Unaudited) HK$'000
Gross rental income	**9,635**	7,509
Less: Direct operating expenses	**(36)**	(36)
Net rental income	**9,599**	7,473
Gains less losses arising from dealing in foreign currencies	**14,774**	10,215
Net losses on derivative financial instruments	**(5,936)**	(1,051)
	8,838	9,164
Net losses on disposal of property and equipment	**(25)**	(28)
Gain on termination of leases	**–**	1,460
Dividend income from listed investments	**102**	101
Dividend income from unlisted investments	**35**	35
Government subsidies	**–**	2,246
Others	**364**	321
	18,913	20,772

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

For the six months ended 30 June 2022, the government subsidy was granted under Employment Support Scheme which aims to retain employment under the Anti-epidemic Fund of the Hong Kong Government.

There were no net gains or losses arising from equity investments at fair value through other comprehensive income ("FVOCI"), loans and advances and receivables, financial assets and financial liabilities measured at amortised cost and financial assets and financial liabilities designated at FVPL for the six months ended 30 June 2023 and 30 June 2022.

10. OPERATING EXPENSES

	For the six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Staff costs:		
Salaries and other staff costs	**254,316**	246,009
Pension contributions	**12,615**	12,009
Less: Forfeited contributions	**(111)**	(20)
Net contribution to retirement benefit schemes	**12,504**	11,989
	266,820	257,998
Other operating expenses:		
Depreciation of right-of-use assets	**28,969**	29,726
Depreciation of property and equipment and land held under finance leases	**22,839**	21,858
Administrative and general expenses	**37,528**	38,021
Others	**69,080**	64,736
Operating expenses before changes in fair value of investment properties	**425,236**	412,339

As at 30 June 2023 and 30 June 2022, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The credits for the periods ended 30 June 2023 and 30 June 2022 arose in respect of staff who left the schemes during the periods.

Notes to Interim Financial Statements

11. CREDIT LOSS EXPENSES

The following tables show the changes in expected credit loss ("ECL") on financial instruments for the periods recorded in the consolidated income statement.

	For the six months ended 30 June 2023 (Unaudited)			
	12-month expected credit loss (Stage 1) HK$'000	Lifetime expected credit loss not credit impaired (Stage 2) HK$'000	Lifetime expected credit loss credit impaired (Stage 3) HK$'000	Total HK$'000
Net charge for/(write-back of) credit loss expenses:				
– loans and advances	(783)	(1,237)	81,539	79,519
– trade bills, accrued interest and other receivables	(63)	(9)	568	496
– cash and short term placements	(148)	–	–	(148)
– placements with banks and financial institutions	(11)	–	–	(11)
– held-to-collect debt securities at amortised cost	(5)	–	–	(5)
– loan commitments	–	–	–	–
	(1,010)	(1,246)	82,107	79,851

11. CREDIT LOSS EXPENSES (Continued)

	For the six months ended 30 June 2022 (Unaudited)			
	12-month expected credit loss (Stage 1) HK$'000	Lifetime expected credit loss not credit impaired (Stage 2) HK$'000	Lifetime expected credit loss credit impaired (Stage 3) HK$'000	Total HK$'000
Net charge for/(write-back of) credit loss expenses:				
– loans and advances	(10,088)	11,553	60,484	61,949
– trade bills, accrued interest and other receivables	(145)	59	(48)	(134)
– cash and short term placements	6	–	–	6
– placements with banks and financial institutions	32	–	–	32
– held-to-collect debt securities at amortised cost	13	–	–	13
– loan commitments	(14)	–	–	(14)
	(10,196)	11,612	60,436	61,852

12. TAX

	For the six months ended 30 June	
	2023 (Unaudited) HK$'000	2022 (Unaudited) HK$'000
Current tax charge:		
Hong Kong	**21,767**	35,833
Overseas	**11,985**	15,806
Deferred tax credit, net	**(4,123)**	(7,219)
	29,629	44,420

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Notes to Interim Financial Statements

12. TAX (Continued)

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

	For the six months ended 30 June 2023 (Unaudited)					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**100,071**		**43,311**		**143,382**	
Tax at the applicable tax rate	**16,512**	**16.5**	**10,828**	**25.0**	**27,340**	**19.1**
Estimated tax effect of net expenses that are not deductible	**2,289**	**2.3**	**–**	**–**	**2,289**	**1.6**
Tax charge at the Group's effective rate	**18,801**	**18.8**	**10,828**	**25.0**	**29,629**	**20.7**

	For the six months ended 30 June 2022 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	197,186		40,553		237,739	
Tax at the applicable tax rate	32,536	16.5	10,138	25.0	42,674	18.0
Estimated tax effect of net expenses that are not deductible	1,738	0.9	8	–	1,746	0.7
Tax charge at the Group's effective rate	34,274	17.4	10,146	25.0	44,420	18.7

13. DIVIDENDS

(a) Dividends declared during the interim period

	For the six months ended 30 June			
	2023 (Unaudited) HK$ per ordinary share	2022 (Unaudited) HK$ per ordinary share	**2023 (Unaudited) HK$'000**	2022 (Unaudited) HK$'000
Interim dividend	**0.03**	0.05	**32,938**	54,896

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

	For the six months ended 30 June			
	2023 (Unaudited) HK$ per ordinary share	2022 (Unaudited) HK$ per ordinary share	**2023 (Unaudited) HK$'000**	2022 (Unaudited) HK$'000
Second interim dividend in respect of the previous period	**0.11**	0.15	**120,771**	164,687

14. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit for the period of HK$113,753,000 (2022: HK$193,319,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2022: 1,097,917,618) during the period.

(b) Diluted earnings per share

The Group had no potentially dilutive ordinary shares in issue during the periods ended 30 June 2023 and 30 June 2022.

Notes to Interim Financial Statements

15. CASH AND SHORT TERM PLACEMENTS

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Cash on hand	**162,543**	208,154
Placements with banks and financial institutions	**591,991**	727,785
Money at call and short notice	**1,157,006**	2,470,656
Gross cash and short term placements	**1,911,540**	3,406,595
Less: Impairment allowances collectively assessed		
As at 1 January 2023 and 2022	**(324)**	(412)
Credit loss expenses released to the consolidated income statement during the period/year	**148**	88
	(176)	(324)
Cash and short term placements	**1,911,364**	3,406,271

Over 90% (31 December 2022: 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 Investors Service ("Moody's"), an external credit agency.

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

Notes to Interim Financial Statements

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

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Gross placements with banks and financial institutions	**1,781,810**	1,826,759
Less: Impairment allowances collectively assessed		
As at 1 January 2023 and 2022	**(189)**	(229)
Credit loss expenses released to the consolidated income statement during the period/year	**11**	40
	(178)	(189)
Placements with banks and financial institutions	**1,781,632**	1,826,570

Over 90% (31 December 2022: over 90%) of the placements maturing after one month but not more than twelve months were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's.

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

Notes to Interim Financial Statements

17. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Loans and advances to customers	**24,446,796**	24,784,214
Trade bills	**918**	5,368
Loans and advances, and trade bills	**24,447,714**	24,789,582
Accrued interest	**95,923**	83,188
	24,543,637	24,872,770
Other receivables	**8,401**	9,535
Gross loans and advances and receivables	**24,552,038**	24,882,305
Less: Impairment allowances		
– specifically assessed	**(101,381)**	(84,823)
– collectively assessed	**(115,808)**	(117,900)
	(217,189)	(202,723)
Loans and advances and receivables	**24,334,849**	24,679,582

Over 90% (31 December 2022: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (31 December 2022: over 90%) of the collateral for the secured loans and advances and receivables were customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

Loans and advances and receivables are summarised as follows:

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Neither past due nor impaired loans and advances and receivables	**22,757,257**	23,315,258
Past due but not impaired loans and advances and receivables	**885,047**	1,245,696
Credit impaired loans and advances	**876,949**	305,536
Credit impaired receivables	**32,785**	15,815
Gross loans and advances and receivables	**24,552,038**	24,882,305

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

About 71% (31 December 2022: about 71%) of "Neither past due nor impaired loans and advances and receivables" were property mortgage loans and hire purchase financing secured by properties, taxi licences, public light bus licences and vehicles.

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

	30 June 2023 (Unaudited)		31 December 2022 (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	**619,505**	**2.53**	79,989	0.32
One year or less but over six months	**56,194**	**0.23**	67,286	0.27
Over one year	**131,793**	**0.54**	117,502	0.48
Loans and advances overdue for more than three months	**807,492**	**3.30**	264,777	1.07
Rescheduled loans and advances overdue for three months or less	**21,167**	**0.09**	25,349	0.10
Impaired loans and advances overdue for three months or less	**48,290**	**0.20**	15,410	0.06
Total overdue and impaired loans and advances	**876,949**	**3.59**	305,536	1.23

Notes to Interim Financial Statements

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**15,986**	1,142
One year or less but over six months	**2,519**	2,660
Over one year	**13,806**	11,833
Trade bills, accrued interest and other receivables overdue for more than three months	**32,311**	15,635
Impaired trade bills, accrued interest and other receivables overdue for three months or less	**474**	180
Total overdue and impaired trade bills, accrued interest and other receivables	**32,785**	15,815

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.

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

	30 June 2023 (Unaudited)			31 December 2022 (Audited)		
	Hong Kong HK$'000	**Mainland China HK$'000**	**Total HK$'000**	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	**766,223**	**73,580**	**839,803**	196,845	83,567	280,412
Impairment allowances specifically assessed	**72,350**	**9,971**	**82,321**	60,818	11,076	71,894
Current market value and fair value of collateral			**877,906**			331,496

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2023 (Unaudited)			31 December 2022 (Audited)		
	Hong Kong HK$'000	**Mainland China HK$'000**	**Total HK$'000**	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**835,534**	**74,200**	**909,734**	236,245	85,106	321,351
Impairment allowances specifically assessed	**90,790**	**10,591**	**101,381**	73,747	11,076	84,823
Current market value and fair value of collateral			**935,476**			352,228

Over 90% (31 December 2022: 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.

(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 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**877,906**	331,496
Covered portion of overdue loans and advances	**731,716**	197,675
Uncovered portion of overdue loans and advances	**75,776**	67,102

Notes to Interim Financial Statements

17. 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: (Continued)

The assets taken as collateral should satisfy the following criteria:

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

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

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

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

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

– Central governments with a grading of Aa3 or above

– Unrated public sector enterprises

– Banks with a grading of Baa2 or above

– Unrated corporations

– Individual shareholders and directors of corporate customers

(d) Repossessed assets

As at 30 June 2023, the total value of repossessed assets of the Group amounted to HK$674,479,000 (31 December 2022: HK$61,796,000).

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

	30 June 2023 (Unaudited)		31 December 2022 (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	**879,735**	**3.60**	1,238,856	5.00
Trade bills, accrued interest and other receivables overdue for three months or less	**5,312**		6,840	

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(f) Impairment allowances on loans and advances and receivables

An analysis of changes in the gross amount of loans and advances and receivables is as follows:

	30 June 2023 (Unaudited) Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Gross loans and advances and receivables as at 1 January 2023	23,788,204	772,750	321,351	24,882,305
New loans/financing originated	3,085,361	12,061	2,698	3,100,120
Loans/financing derecognised or repaid during the period (other than write-offs)	(3,262,031)	(17,446)	(37,141)	(3,316,618)
Transfer to 12-month expected credit loss (Stage 1)	93,657	(81,592)	(12,065)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(191,920)	192,812	(892)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(144,715)	(604,837)	749,552	–
Total transfer between stages	(242,978)	(493,617)	736,595	–
Write-offs	–	–	(113,769)	(113,769)
As at 30 June 2023	23,368,556	273,748	909,734	24,552,038
Arising from:				
Loans and advances	23,298,921	270,926	876,949	24,446,796
Trade bills, accrued interest and other receivables	69,635	2,822	32,785	105,242
	23,368,556	273,748	909,734	24,552,038

The amount outstanding on financial assets that were written off during the period and are still subject to enforcement action amounted to HK$92,850,000.

Notes to Interim Financial Statements

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(f) Impairment allowances on loans and advances and receivables (Continued)

	31 December 2022 (Audited)			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Gross loans and advances and receivables as at 1 January 2022	25,752,582	250,898	247,999	26,251,479
New loans/financing originated	5,859,207	1,493	1,369	5,862,069
Loans/financing derecognised or repaid during the year (other than write-offs)	(6,893,566)	(55,895)	(71,267)	(7,020,728)
Transfer to 12-month expected credit loss (Stage 1)	81,484	(72,766)	(8,718)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(722,840)	723,224	(384)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(288,663)	(74,204)	362,867	–
Total transfer between stages	(930,019)	576,254	353,765	–
Write-offs	–	–	(210,515)	(210,515)
As at 31 December 2022	23,788,204	772,750	321,351	24,882,305
Arising from:				
Loans and advances	23,707,748	770,930	305,536	24,784,214
Trade bills, accrued interest and other receivables	80,456	1,820	15,815	98,091
	23,788,204	772,750	321,351	24,882,305

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK$170,435,000.

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(f) Impairment allowances on loans and advances and receivables (Continued)

An analysis of credit risk exposure by the Group's internal credit rating system is as follows:

	30 June 2023 (Unaudited)			
	Stage 1 HK$'000	**Stage 2 HK$'000**	**Stage 3 HK$'000**	**Total HK$'000**
Internal rating grades:				
Performing				
Pass	**23,208,846**	**–**	**–**	**23,208,846**
Special Mention	**159,710**	**273,748**	**–**	**433,458**
Non-performing				
Substandard	**–**	**–**	**668,562**	**668,562**
Doubtful	**–**	**–**	**215,876**	**215,876**
Loss	**–**	**–**	**25,296**	**25,296**
Total	**23,368,556**	**273,748**	**909,734**	**24,552,038**

	31 December 2022 (Audited)			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Internal rating grades:				
Performing				
Pass	23,674,964	–	–	23,674,964
Special Mention	113,240	772,750	–	885,990
Non-performing				
Substandard	–	–	111,070	111,070
Doubtful	–	–	190,588	190,588
Loss	–	–	19,693	19,693
Total	23,788,204	772,750	321,351	24,882,305

Notes to Interim Financial Statements

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(f) Impairment allowances on loans and advances and receivables (Continued)

An analysis of changes in the corresponding ECL allowances is as follows:

	30 June 2023 (Unaudited)			
	Stage 1 HK$'000	**Stage 2 HK$'000**	**Stage 3 HK$'000**	**Total HK$'000**
As at 1 January 2023	**85,668**	**32,232**	**84,823**	**202,723**
New loans/financing originated	**37,837**	**41**	**335**	**38,213**
Loans/financing derecognised or repaid during the period (other than write-offs)	**(37,093)**	**(2,771)**	**(50,965)**	**(90,829)**
Transfer to 12-month expected credit loss (Stage 1)	**2,508**	**(701)**	**(1,807)**	**–**
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	**(1,842)**	**2,069**	**(227)**	**–**
Transfer to lifetime expected credit loss credit impaired (Stage 3)	**(3,199)**	**(22,698)**	**25,897**	**–**
Total transfer between stages	**(2,533)**	**(21,330)**	**23,863**	**–**
Impact on period end expected credit loss of exposures transferred between stages during the period	**(1,409)**	**22,002**	**93,317**	**113,910**
Movements due to changes in credit risk	**2,352**	**812**	**15,557**	**18,721**
Recoveries	**–**	**–**	**48,220**	**48,220**
Write-offs	**–**	**–**	**(113,769)**	**(113,769)**
As at 30 June 2023	**84,822**	**30,986**	**101,381**	**217,189**
Arising from:				
Loans and advances	**83,649**	**30,945**	**97,863**	**212,457**
Trade bills, accrued interest and other receivables	**1,173**	**41**	**3,518**	**4,732**
	84,822	**30,986**	**101,381**	**217,189**

Notes to Interim Financial Statements

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(f) Impairment allowances on loans and advances and receivables (Continued)

	31 December 2022 (Audited)			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
As at 1 January 2022*	96,568	21,924	65,752	184,244
New loans/financing originated	58,300	–	484	58,784
Loans/financing derecognised or repaid during the year (other than write-offs)	(58,978)	(4,151)	(101,859)	(164,988)
Transfer to 12-month expected credit loss (Stage 1)	1,811	(607)	(1,204)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(2,273)	2,353	(80)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(7,816)	(16,550)	24,366	–
Total transfer between stages	(8,278)	(14,804)	23,082	–
Impact on year end expected credit loss of exposures transferred between stages during the year	(690)	29,372	196,178	224,860
Movements due to changes in credit risk	(1,254)	(109)	13,344	11,981
Recoveries	–	–	98,357	98,357
Write-offs	–	–	(210,515)	(210,515)
As at 31 December 2022	85,668	32,232	84,823	202,723
Arising from:				
Loans and advances	84,432	32,182	81,873	198,487
Trade bills, accrued interest and other receivables	1,236	50	2,950	4,236
	85,668	32,232	84,823	202,723

* *Effective from 1 January 2022, the ECL allowances on off-balance sheet credit exposures, including loan commitments and financial guarantees and letters of credit, have been reclassified and included under other liabilities in note 24 to the interim financial statements.*

Notes to Interim Financial Statements

17. 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:

	Undiscounted lease payments		Net investment in finance leases	
	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000	**30 June 2023 (Unaudited) HK$'000**	31 December 2022 (Audited) HK$'000
Amounts receivable under finance leases:				
Within one year	**469,649**	454,967	**287,145**	281,222
Over one year but within two years	**401,838**	391,406	**246,148**	241,862
Over two years but within three years	**345,360**	337,546	**200,190**	197,822
Over three years but within four years	**302,300**	295,348	**164,834**	162,784
Over four years but within five years	**263,527**	261,430	**131,548**	134,254
Over five years	**5,600,489**	5,544,205	**4,023,301**	4,043,027
	7,383,163	7,284,902	**5,053,166**	5,060,971
Less: Unearned finance income	**(2,329,997)**	(2,223,931)		
Net investment in finance leases	**5,053,166**	5,060,971		

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 30 years.

18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Unlisted equity investments in corporate entity, at fair value:		
At the beginning and the end of the period/year	**6,804**	6,804

The above investments were irrevocably designated at FVOCI as the Group considers these investments to be strategic in nature. Fair value is measured based on the present value of expected cash flows in the foreseeable future.

During the period/year, the Group received dividends of HK$35,000 (2022: HK$35,000) from the above investments.

19. HELD-TO-COLLECT DEBT SECURITIES AT AMORTISED COST

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Certificates of deposit held	**3,518,453**	3,232,848
Treasury bills and government bonds (including Exchange Fund Bills)	**2,741,619**	2,867,666
Other debt securities	**1,104,972**	1,337,727
Gross held-to-collect debt securities at amortised cost	**7,365,044**	7,438,241
Less: Impairment allowances collectively assessed		
As at 1 January 2023 and 2022	**(746)**	(649)
Credit loss expenses released/(charged) to the consolidated income statement during the period/year	**5**	(97)
	(741)	(746)
	7,364,303	7,437,495
Listed or unlisted:		
– Listed in Hong Kong	**1,085,478**	1,314,152
– Listed outside Hong Kong	**207,878**	149,790
– Unlisted	**6,071,688**	5,974,299
	7,365,044	7,438,241
Analysed by type of issuers:		
– Central governments	**2,741,619**	2,867,666
– Public sector entities	**469,951**	429,785
– Corporates	**200,000**	200,000
– Banks and other financial institutions	**3,953,474**	3,940,790
	7,365,044	7,438,241

There were no impairment allowances specifically assessed made against held-to-collect debt securities at amortised cost as at 30 June 2023 and 31 December 2022.

There were neither impaired nor overdue held-to-collect debt securities at amortised cost as at 30 June 2023 and 31 December 2022.

Over 90% (31 December 2022: over 90%) of held-to-collect debt securities at amortised cost were rated with a grading of A3 or above based on the credit rating of Moody's.

Notes to Interim Financial Statements

20. INVESTMENT PROPERTIES

	HK$'000
At valuation:	
As at 1 January 2022	366,935
Additions	75,602
Changes in fair value recognised in the consolidated income statement	(13,222)
As at 31 December 2022 and 1 January 2023 (Audited)	**429,315**
Transfer from property and equipment	**51,919**
Changes in fair value recognised in the consolidated income statement	**6,570**
Changes in fair value recognised in the consolidated statement of comprehensive income	**74,581**
As at 30 June 2023 (Unaudited)	**562,385**

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

All investment properties were classified under Level 3 in the fair value hierarchy. During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (31 December 2022: 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 2023, investment properties were revalued according to the valuation assessed by C S Surveyors Limited, a firm of independent professionally qualified valuers. Finance and Control Department has discussions with the valuer on the valuation methodology and valuation results at least 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 2023 (Unaudited)		31 December 2022 (Audited)	
	Range HK$	**Weighted average HK$**	Range HK$	Weighted average HK$
Price per square metre	**31,000 to 1,119,000**	**476,000**	31,000 to 774,000	288,000

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

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

Notes to Interim Financial Statements

21. 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 2022	83,518	414,236	1,460	499,214
Additions	772	37,421	–	38,193
Disposals/write-off	–	(17,655)	–	(17,655)
As at 31 December 2022 and 1 January 2023 (Audited)	**84,290**	**434,002**	**1,460**	**519,752**
Transfer to investment properties	**(387)**	**–**	**–**	**(387)**
Additions	**–**	**11,795**	**–**	**11,795**
Disposals/write-off	**–**	**(6,951)**	**–**	**(6,951)**
As at 30 June 2023 (Unaudited)	**83,903**	**438,846**	**1,460**	**524,209**
Accumulated depreciation:				
As at 1 January 2022	32,200	279,515	757	312,472
Provided during the year	1,694	32,668	253	34,615
Disposals/write-off	–	(17,598)	–	(17,598)
As at 31 December 2022 and 1 January 2023 (Audited)	**33,894**	**294,585**	**1,010**	**329,489**
Provided during the period	**851**	**16,378**	**123**	**17,352**
Transfer to investment properties	**(127)**	**–**	**–**	**(127)**
Disposals/write-off	**–**	**(6,926)**	**–**	**(6,926)**
As at 30 June 2023 (Unaudited)	**34,618**	**304,037**	**1,133**	**339,788**
Net carrying amount:				
As at 30 June 2023 (Unaudited)	**49,285**	**134,809**	**327**	**184,421**
As at 31 December 2022 (Audited)	50,396	139,417	450	190,263

There were no impairment allowances made against the above items of property and equipment as at 30 June 2023 and 31 December 2022. There were no movements in impairment allowances for the period ended 30 June 2023 and for the year ended 31 December 2022.

Notes to Interim Financial Statements

22. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
As at 1 January 2022	815,428
Additions	70,822
As at 31 December 2022 and 1 January 2023 (Audited)	**886,250**
Transfer to investment properties	**(52,613)**
As at 30 June 2023 (Unaudited)	**833,637**
Accumulated depreciation and impairment:	
As at 1 January 2022	143,135
Depreciation provided during the year	10,206
As at 31 December 2022 and 1 January 2023 (Audited)	**153,341**
Depreciation provided during the period	**5,487**
Transfer to investment properties	**(954)**
As at 30 June 2023 (Unaudited)	**157,874**
Net carrying amount:	
As at 30 June 2023 (Unaudited)	**675,763**
As at 31 December 2022 (Audited)	732,909

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

Notes to Interim Financial Statements

23. INTANGIBLE ASSETS

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Cost:		
At the beginning and the end of the period/year	**1,085**	1,085
Accumulated impairment:		
At the beginning and the end of the period/year	**367**	367
Net carrying amount:		
At the beginning and the end of the period/year	**718**	718

Intangible assets represent trading rights held by the Group. The trading rights are retained for stock trading and stockbroking activities, and have indefinite useful lives as the trading rights have no expiry date. They comprise five units (31 December 2022: five units) of Stock Exchange Trading Right and one unit (31 December 2022: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

24. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Interest receivable from financial institutions	**62,207**	43,226
Other debtors, deposits and prepayments	**124,211**	220,566
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	**26,450**	–
	212,868	263,792

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

Notes to Interim Financial Statements

24. OTHER ASSETS AND OTHER LIABILITIES (Continued)

Other liabilities

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Creditors, accruals and other payables*	**198,287**	189,506
Interest payable	**176,414**	130,917
Net amount of accounts payable to HKSCC	**4,449**	121,851
	379,150	442,274

* *As at 30 June 2023, the balance also includes the impairment allowance of HK$21,000 (31 December 2022: HK$21,000) on off-balance sheet credit exposures, including loan commitments and financial guarantees and letters of credit.*

25. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Demand deposits and current accounts	**3,924,025**	3,535,991
Savings deposits	**5,811,096**	6,081,498
Time, call and notice deposits	**18,857,776**	20,828,923
	28,592,897	30,446,412

26. UNSECURED BANK LOANS AT AMORTISED COST

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Unsecured bank loans	**1,513,000**	1,552,087
Repayable:		
On demand or within a period not exceeding one year	**1,513,000**	1,552,087

The unsecured bank loans were denominated in Hong Kong dollars ("HKD"). Carrying amounts of the unsecured bank loans bore interest at floating interest rates and at prevailing market rates.

27. LEASES

(a) As lessor

The Group leases its investment properties as disclosed in note 20 to the interim financial statements under operating lease arrangements, and the terms of the leases range from 1 to 4 years.

As at 30 June 2023 and 31 December 2022, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Within one year	**12,738**	11,041
Over one year but within two years	**7,456**	6,974
Over two years but within three years	**866**	576
	21,060	18,591

Notes to Interim Financial Statements

27. LEASES (Continued)

(b) As lessee

The Group has entered into certain future lease arrangements with landlords with a lease term of 3 years during the period. As at 30 June 2023 and 31 December 2022, the Group had total future lease payments for leases committed but not yet commenced falling due as follows:

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Within one year	**2,863**	1,795
In the second to fifth years, inclusive	**8,119**	4,493
	10,982	6,288

28. OFF-BALANCE SHEET EXPOSURE

(a) Contingent liabilities, commitments and derivatives

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

	30 June 2023 (Unaudited)				
	Contractual amount HK$'000	**Credit equivalent amount HK$'000**	**Credit risk-weighted amount HK$'000**	**Positive fair value-assets HK$'000**	**Negative fair value-liabilities HK$'000**
Direct credit substitutes	**28,272**	**28,272**	**24,614**	**–**	**–**
Transaction-related contingencies	**27,000**	**13,500**	**1,259**	**–**	**–**
Trade-related contingencies	**7,343**	**1,469**	**1,241**	**–**	**–**
Forward forward deposits placed	**–**	**–**	**–**	**–**	**–**
Forward asset purchases	**–**	**–**	**–**	**–**	**–**
	62,615	**43,241**	**27,114**	**–**	**–**
Derivatives held for trading:					
Foreign exchange contracts	**1,019,041**	**14,815**	**2,963**	**1,930**	**7,866**
Other commitments with an original maturity of:					
Not more than one year	**–**	**–**	**–**	**–**	**–**
More than one year	**136,960**	**68,480**	**68,480**	**–**	**–**
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	**2,158,563**	**–**	**–**	**–**	**–**
	3,377,179	**126,536**	**98,557**	**1,930**	**7,866**

28. OFF-BALANCE SHEET EXPOSURE (Continued)

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

	30 June 2023 (Unaudited) Contractual amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	**12,017**

	31 December 2022 (Audited)				
	Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	27,340	27,340	23,372	–	–
Transaction-related contingencies	13,533	6,767	2,011	–	–
Trade-related contingencies	7,698	1,540	1,380	–	–
Forward forward deposits placed	–	–	–	–	–
Forward asset purchases	–	–	–	–	–
	48,571	35,647	26,763	–	–
Derivatives held for trading:					
Foreign exchange contracts	594,620	7,105	1,421	343	2,002
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	155,840	77,920	77,920	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,306,996	–	–	–	–
	3,106,027	120,672	106,104	343	2,002

Notes to Interim Financial Statements

28. OFF-BALANCE SHEET EXPOSURE (Continued)

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

	31 December 2022 (Audited) Contractual amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	18,530

As at 30 June 2023 and 31 December 2022, the corresponding ECLs for the outstanding off-balance sheet exposures, including loan commitments and financial guarantees and letters of credit under stage 1, amounted to HK$21,000 and HK$21,000 respectively.

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

As at 30 June 2023 and 31 December 2022, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

(b) Derivative financial instruments

The Group uses the following derivative financial instruments:

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

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

28. OFF-BALANCE SHEET EXPOSURE (Continued)

(b) Derivative financial instruments (Continued)

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

29. RELATED PARTY TRANSACTIONS

The Group had the following major transactions with related parties which were carried out on essentially the same terms and/or at prevailing market rates with other customers or suppliers during the period:

	For the six months ended 30 June	
	2023 (Unaudited) HK$'000	2022 (Unaudited) HK$'000
Related party transactions included in the consolidated income statement:		
Ultimate holding company:		
Interest income	**2**	–
Bank loans interest paid and payable	**5,179**	1,368
Deposits interest paid	**6**	1
Commitment fees paid	**2,208**	1,970
Credit information service charge	**70**	–
Fellow subsidiaries:		
Bank loans interest paid and payable	**4,788**	1,294
Commitment fees paid	**57**	67
Services fees	**5**	3
Key management personnel:		
Interest income received	**154**	–
Deposits interest paid	**32**	3
Commission income	**1**	1
Short term employee benefits	**4,108**	3,728
Post-employment benefits	**240**	197

Notes to Interim Financial Statements

29. RELATED PARTY TRANSACTIONS (Continued)

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Related party transactions included in the consolidated statement of financial position:		
Ultimate holding company:		
Cash and short term funds	**2,811**	3,652
Deposits and balances of banks and other financial institutions at amortised cost	**19,192**	16,116
Bank loans	**195,000**	215,000
Interest payable	**81**	247
Fellow subsidiaries:		
Deposits and balances of banks and other financial institutions at amortised cost	**8,292**	8,093
Bank loans	**220,000**	240,000
Interest payable	**40**	78
Key management personnel:		
Secured term loan	**10,692**	–
Interest receivable	**11**	–
Deposits	**1,441**	1,174
Interest payable	**19**	8

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Liquid or/and very short term and variable rate financial instruments include loans and advances and receivables, held-to-collect debt securities at amortised cost, customer deposits, certificates of deposit issued and unsecured bank loans. As these financial instruments are liquid or having a short-term maturity or carrying interest at a variable rate, the carrying amounts are reasonable approximations of their fair values. In the case of loans and unquoted debt securities, their fair values do not reflect changes in their credit quality as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances.

Fixed rate financial instruments

Fixed rate financial instruments include placements with banks and financial institutions, loans and advances and receivables, held-to-collect debt securities at amortised cost, deposits from banks and other financial institutions, customer deposits and certificates of deposit issued. The fair values of these fixed rate financial instruments carried at amortised cost are determined 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.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

	30 June 2023 (Unaudited)			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets:				
Derivative financial instruments	**–**	**1,930**	**–**	**1,930**
Equity investments at fair value through other comprehensive income	**–**	**–**	**6,804**	**6,804**
	–	**1,930**	**6,804**	**8,734**
Financial liabilities:				
Derivative financial instruments	**–**	**7,866**	**–**	**7,866**

	31 December 2022 (Audited)			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets:				
Derivative financial instruments	–	343	–	343
Equity investments at fair value through other comprehensive income	–	–	6,804	6,804
	–	343	6,804	7,147
Financial liabilities:				
Derivative financial instruments	–	2,002	–	2,002

Level 2 financial instruments comprise forward foreign exchange contracts and currency swaps. These instruments have been measured at fair value based on the forward foreign exchange rates that are quoted in an active market. As at 30 June 2023 and 31 December 2022, the effects of discounting were considered insignificant for the Level 2 financial instruments.

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

Notes to Interim Financial Statements

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

For the period ended 30 June 2023 and the year ended 31 December 2022, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the period ended 30 June 2023 and the year ended 31 December 2022, there were no issues and settlements related to the Level 3 financial instruments.

There was no gain or loss and no OCI reported in the consolidated income statement and consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the period ended 30 June 2023 and the year ended 31 December 2022.

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

31. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The tables below show an analysis of financial assets and financial liabilities (including key off-balance sheet items) analysed by principal according to the periods that they are expected to be recovered or settled.

	30 June 2023 (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:								
Gross cash and short term placements	754,534	1,157,006	–	–	–	–	–	1,911,540
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	1,365,066	416,744	–	–	–	1,781,810
Gross loans and advances and receivables	640,638	838,825	2,210,510	2,019,006	5,332,613	12,572,202	938,244	24,552,038
Equity investments at fair value through other comprehensive income	–	–	–	–	–	–	6,804	6,804
Gross held-to-collect debt securities at amortised cost	–	442,120	1,309,810	4,612,245	1,000,869	–	–	7,365,044
Other assets	45	44,650	22,364	30,703	5,510	–	109,596	212,868
Gross foreign exchange contracts	–	354,164	75,502	–	–	–	–	429,666
Total financial assets	1,395,217	2,836,765	4,983,252	7,078,698	6,338,992	12,572,202	1,054,644	36,259,770
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	84,919	330,219	10,000	100,000	–	–	–	525,138
Customer deposits at amortised cost	9,782,917	4,938,049	7,409,395	6,438,111	24,425	–	–	28,592,897
Unsecured bank loans at amortised cost	–	1,513,000	–	–	–	–	–	1,513,000
Lease liabilities	–	4,572	8,835	32,008	52,081	6,627	–	104,123
Other liabilities	6,896	87,198	70,905	96,394	127	–	117,630	379,150
Gross foreign exchange contracts	–	358,235	77,367	–	–	–	–	435,602
Total financial liabilities	9,874,732	7,231,273	7,576,502	6,666,513	76,633	6,627	117,630	31,549,910
Net liquidity gap	(8,479,515)	(4,394,508)	(2,593,250)	412,185	6,262,359	12,565,575	937,014	4,709,860

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

31 December 2022 (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:								
Gross cash and short term placements	935,939	2,470,656	–	–	–	–	–	3,406,595
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	1,686,951	139,808	–	–	–	1,826,759
Gross loans and advances and receivables	575,314	1,979,025	1,170,195	2,053,263	5,971,251	12,780,828	352,429	24,882,305
Equity investments at fair value through other comprehensive income	–	–	–	–	–	–	6,804	6,804
Gross held-to-collect debt securities at amortised cost	–	720,455	1,691,476	3,762,752	1,263,558	–	–	7,438,241
Other assets	56	157,351	11,240	4,617	3,649	–	86,879	263,792
Gross foreign exchange contracts	–	594,620	–	–	–	–	–	594,620
Total financial assets	1,511,309	5,922,107	4,559,862	5,960,440	7,238,458	12,780,828	446,112	38,419,116
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	108,025	249,132	50,000	90,000	–	–	–	497,157
Customer deposits at amortised cost	9,671,382	6,214,728	9,592,685	4,943,996	23,621	–	–	30,446,412
Unsecured bank loans at amortised cost	–	1,552,087	–	–	–	–	–	1,552,087
Lease liabilities	–	4,474	9,171	35,971	52,910	8,219	–	110,745
Other liabilities	4,652	199,401	51,256	34,580	47	–	152,338	442,274
Gross foreign exchange contracts	–	596,279	–	–	–	–	–	596,279
Total financial liabilities	9,784,059	8,816,101	9,703,112	5,104,547	76,578	8,219	152,338	33,644,954
Net liquidity gap	(8,272,750)	(2,893,994)	(5,143,250)	855,893	7,161,880	12,772,609	293,774	4,774,162

32. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

Risk management structure

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

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

Interest rate risk management

Interest rate risk in banking book ("IRRBB") is internally defined as current or prospective risk arising from adverse movements in market interest rates to the Group's positions in the banking book. Changes in market interest rate affect economic value of interest-bearing assets, liabilities, off-balance commitments and net interest income from such financial instruments. The primary objective of interest rate risk management is to minimise/contain the potential adverse effects of interest rate movements in economic value of equity ("EVE") and net interest income ("NII") by closely monitoring the net repricing gap of the Group's assets and liabilities.

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

The IRRBB comprises gap risk, basis risk and option risk. Gap risk arises from changes in interest rates on assets, liabilities and off-balance sheet positions of different maturities. Basis risk arises from imperfect correlation of timing between changes in the rates earned and paid on different instruments with otherwise similar repricing characteristics. Option risk arises from the optional elements embedded in the Group's assets and liabilities that provide customers with the right to prepay or early repay one's assets or liabilities such that cash flows related to such financial contracts are altered.

The Boards of Public Bank (Hong Kong) and Public Finance are ultimately responsible for management of IRRBB and define the overall risk appetite for management of IRRBB. The RMCs are responsible for reviewing IRRBB policies, establishing risk limits in relation to EVE and NII in accordance with risk appetite and maintaining management oversight on IRRBB. The ALCOs are responsible for identifying, measuring, evaluating, controlling and monitoring IRRBB and ensuring the timely implementation of IRRBB management strategy by different departments and business lines in response to the changing market conditions. Risk Management Departments ("RMDs") assess, monitor and report interest rate risk exposures against approved risk limits and key interest rate risk related matters (such as limit excesses) to the ALCOs at least monthly, and escalate to the RMCs and the Boards for further deliberations/approval of proposed actions as necessary. The Group manages its IRRBB exposures at a desired level and within its risk tolerance thresholds through strategic planning of balance sheet compositions with matching of repricing maturity for its on-balance sheet instruments and/or off-balance sheet derivatives in each significant currency. Currently, the Group does not use interest rate instruments like interest rate swaps and interest rate futures for hedging purpose as the Group is not engaged in complex business transactions involving derivative financial instruments. Where the Group decides to implement a hedging to manage IRRBB, the hedge accounting treatment is required to be made in accordance with the HKFRSs. The Group conducts stress testing via scenario analyses to assess the adverse impact of various interest rate shocks on the Group's EVE and NII, and the outcomes are deliberated in ALCO and RMC meetings. The Group establishes model for IRRBB assessment including yield curve levels' projection of relevant interest-bearing assets and early redemption of loans. Any revisions to the existing IRRBB model or assessment methodology are deliberated by ALCOs and RMCs for the approval by the Boards. Internal Audit Departments perform independent reviews on the effectiveness of the IRRBB management system, including but not limited to the implementation/compliance of the approved policies, monitoring of risk limits, escalation of limit breaches and adequacy of IRRBB assessment methodology.

The Group employs various analytical techniques to measure IRRBB and its impact on EVE and NII on monthly basis, including interest rate repricing profile analysis, and scenario assessment on the Group's EVE and NII under both parallel and non-parallel interest rate shocks.

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 dealings, commercial banking operations and structural foreign currency exposures. All foreign exchange positions are managed by the Group's Treasury Department within limits approved by the Board of Public Bank (Hong Kong).

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

As at 30 June 2023, if RMB had strengthened or weakened by 100 basis points against HKD with all other variables held constant, the Group's equity would have increased or decreased by HK$11 million (31 December 2022: HK$11 million) mainly as a result of foreign exchange impact arising from the net structural position of RMB denominated operating capital.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(b) Price risk

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

The Group monitors price risk principally by limits established for transactions and open positions. These limits are reviewed and approved by the respective Boards of Public Bank (Hong Kong) and Public Finance and are monitored on a daily basis.

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

Credit risk management

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

The Group has a credit risk management process to measure, monitor and control credit risk. Its credit policy defines the credit extension and measurement criteria, credit review, approval and monitoring processes, and the loan classification and provisioning systems. It has a hierarchy of credit authority which approves credit in compliance with the Group's credit policy. Credit risk exposures are measured and monitored against credit limits and other control limits (such as connected exposures, large exposures and risk concentration limits approved by the respective Boards or dedicated committees). The Group's loan exposures are concentrated in purchase of properties, property investment, transportation and consumer financing segment in Hong Kong; and such lendings are monitored and controlled within the approved concentration limits of Public Bank (Hong Kong) and Public Finance. Segregation of duties in key credit functions is in place to ensure separate credit control and monitoring. Management and recovery of problem credits are handled by an independent work-out team.

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and its capital resources. Its policy on connected lending exposures defines and states connected parties, statutory and applicable connected lending limits, types of connected transactions, 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 of the loans offered to non-connected borrowers under similar circumstances. The terms and conditions should be determined on normal commercial terms at arm's length and in the ordinary course of business of the Group.

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

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

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32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management (Continued)

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

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

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

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

The "Neither past due nor impaired loans and advances and receivables" are shown in note 17 to the interim financial statements.

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

Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its current obligations. Major sources of liquidity risk of the Group are the early or unexpected withdrawals of deposits in cash outflow and the delay in cash inflow from loan repayments. To manage liquidity risk, the Group has established a liquidity risk management framework which incorporates liquidity risk tolerance, management oversight on liquidity risk, liquidity risk and funding strategy, risk related metrics and tools for liquidity risk management, internal liquidity risk pricing, and the manner of reporting significant matters. The major objectives of liquidity risk management framework are to (i) specify the roles and responsibilities of relevant parties on liquidity risk management, (ii) identify, measure and control liquidity risk exposures with proper implementation of funding strategies, (iii) effectively report significant risk related matters for management oversight, and (iv) manage the liquidity profile within risk tolerance. The liquidity risk management framework is cascaded to all business lines to ensure a consistent liquidity risk strategy, policies and practices across the Group. Liquidity risk related policies are reviewed by Senior Management and dedicated committees, and significant changes in such policies are approved by the Boards of Public Bank (Hong Kong) and Public Finance or committees delegated by the respective Boards.

ALCOs of Public Bank (Hong Kong) and Public Finance monitor the liquidity position as part of the ongoing management of assets and liabilities, and set up trigger limits to monitor liquidity risk. They also closely monitor the liquidity of the subsidiaries on a periodic basis to ensure that the liquidity structure of the subsidiaries' assets, liabilities and commitments can meet their funding needs, and that internal liquidity trigger limits are complied with.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Treasury Department of Public Bank (Hong Kong) and a dedicated department of Public Finance are responsible for the centralised implementation of the strategies and policies approved by the dedicated committees and the respective Boards, and developing operational procedures and controls to ensure the compliance with the aforesaid policies and to minimise operational disruptions in case of a liquidity crisis.

RMDs of Public Bank (Hong Kong) and Public Finance are responsible for day-to-day monitoring of liquidity maintenance ratios, loans to deposits ratios, concentration risk related ratios and other liquidity risk related ratios coupled with the use of cash-flow projections, maturity ladder, stress-testing methodologies and other applicable risk assessment tools and metrics to detect early warning signals and identify vulnerabilities to potential liquidity risk on forward-looking basis with the objective of ensuring different types of liquidity risks of the Group are appropriately identified, measured, assessed and reported. They also carry out analysis based on risk-based management reports, summarise the data from those reports and present the key liquidity information of the Group and key business lines to the respective ALCOs on a regular (at least monthly) basis. In case of significant issues, such as serious limit excesses or breaches or early warning signals of potential severe impact on Public Bank (Hong Kong) or Public Finance are identified from the aforesaid management reports or market information obtained from Treasury Department and business units, a designated ALCO member will convene a meeting (involving Senior Management members) to discuss risk related matters and propose actions to ALCO whenever necessary. A high level summary of the liquidity risk performance of Public Bank (Hong Kong) or Public Finance will be presented by the respective ALCOs to their RMCs and the Boards.

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

The funding strategies of the Group are to (i) diversify funding sources for mitigating liquidity risk exposures; (ii) minimise disruptions due to operational issues such as transfer of liquidity across group entities; (iii) ensure contingency funding is available to the Group; and (iv) maintain sufficient liquidity cushion to meet critical liquidity needs such as loan commitments and deposit withdrawals in stressed situations. The Group has established concentration limits of funding sources taking into account the respective risk profiles of Public Bank (Hong Kong) and Public Finance. For instance, intra-group funding and funding from the largest funding provider are restricted to be not more than 15% and 10% of total funding sources respectively to reduce reliance on single source of funding. Medium and long term funding is maintained at a level of at least 20% of total funding source to pursue stable funding structure.

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Contingency funding plan is formulated to address liquidity needs at 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 the 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 the survival period for positive cash-flow mismatches are used in contingency funding planning and determination of the required level of liquidity cushion. Based on the results of liquidity stress-testing, standby facilities and liquid assets are maintained to provide liquidity to meet unexpected and material cash outflows in stressed situations.

The Group maintains sufficient liquidity cushion comprising mainly bills, notes or bonds issued by eligible central governments in a total amount of not less than HK$2.0 billion to address critical and emergent liquidity needs on intraday basis and over other different time horizons. The Group is not subject to particular collateral arrangements or requirements in contracts in case there is a credit rating downgrade of entities within the Group.

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

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Regulatory liquidity ratios

Pursuant to section 97H of the Hong Kong Banking Ordinance and Rules 7 and 8D of the Banking (Liquidity) Rules, Public Bank (Hong Kong) Group (including Public Bank (Hong Kong) and Public Finance) and Public Bank (Hong Kong) are required to comply with the liquidity maintenance ratio requirement and core funding ratio requirement whilst Public Finance is required to comply with the liquidity maintenance ratio requirement only.

	For the six months ended 30 June	
	2023 (Unaudited)	2022 (Unaudited)
Liquidity Maintenance Ratio		
– Public Bank (Hong Kong) Group	**58.1%**	50.8%
– Public Bank (Hong Kong)	**55.8%**	49.3%
– Public Finance	**113.8%**	84.2%
Core Funding Ratio		
– Public Bank (Hong Kong) Group	**143.9%**	146.6%
– Public Bank (Hong Kong)	**141.6%**	145.0%

The average liquidity maintenance ratio and core funding ratio are computed using the arithmetic mean of each calendar month's average ratio as reported in the return relating to the liquidity position submitted to the HKMA. The core funding ratio is not applicable to Public Finance.

Liquidity exposures and funding needs are measured and assessed at the level of individual legal entities (i.e. Public Bank (Hong Kong) and its core operating subsidiaries) and Mainland China Office (i.e. Shenzhen Branch and its sub-branches). Pursuant to the HKMA/SFC's requirements, the transferability of liquidity of Public Bank (Hong Kong) and its operating subsidiaries takes into account the need of compliance with trigger points of liquidity related ratios and minimum liquidity capital level; and other legal and regulatory limitations such as limits of connected exposures and capital related ratios. Pursuant to the requirements of China Banking and Insurance Regulatory Commission, the Mainland China Office of Public Bank (Hong Kong) is required to maintain regulatory liquidity ratios in RMB and foreign currencies of not less than 25%. Due to the foreign exchange controls imposed by the State Administration of Foreign Exchange ("SAFE") in China, cross-border funding flows to and from Mainland China are subject to the supervision and approval of the SAFE. In view of the limitation on transferability of liquidity, Mainland China Office has maintained high and sufficient liquidity to meet its business needs. As at 30 June 2023, the liquidity ratios in RMB and foreign currencies of Mainland China Office were more than 100% (31 December 2022: more than 100%).

Notes to Interim Financial Statements

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

Cyber security risk management

Cyber security risk is the risk of loss resulting from a cyber attack or information security breach on the Group. The Group has put in place adequate resources and established cyber security risk management policy in accordance with the requirements of the HKMA's Cybersecurity Fortification Initiative and other industry standards to provide guidance on managing cyber security risk, improving cyber resilience as well as ensuring adequate cyber security awareness throughout the Group. The Group also periodically engaged qualified professional assessors to conduct assessments and simulation attacks to assess the robustness of the Group's cyber security controls.

Climate risk management

Climate risk is defined as the risk from climate changes, the related impacts and the economic and financial consequences, as a result of physical damage caused by extreme weather events or from transitioning towards a low-carbon economy. Public Bank (Hong Kong) and Public Finance have established their respective climate-related risk management policies in accordance with the requirements of the Supervisory Policy Manual Module GS-1 "Climate Risk Management" issued by the HKMA to define the roles and responsibilities of various committees, business units and supporting departments, and provide guidance on managing climate-related risks as well as ensuring adequate awareness on importance of climate changes throughout the entities. Moreover, the Group's priority on managing climate-related risks and opportunities has been formulated into strategies and action plans to achieve the Public Bank Group's overall sustainability commitment of Carbon Neutral Position for Scopes 1 and 2 by 2030 and Net Zero Carbon by 2050. In order to achieve the commitment, the Group's priority is on developing the risk management processes, infrastructure and tools to systematically identify and assess climate-related risks and to embed climate-related risk management considerations into the day-to-day business activities of the Group. Public Bank (Hong Kong) and Public Finance have also conducted climate risk stress testing exercise to identify potential vulnerabilities brought by climate changes and plan for responses towards achieving climate resilience. Further climate risk related disclosures of the Group are shown in the annual Environmental, Social and Governance Report.

Capital management

Capital of the Group for regulatory and risk management purposes includes share capital, share premium, reserves, retained profits, regulatory reserve and subordinated debts, if any. Finance and Control Department is responsible for monitoring the amount of the capital base and capital adequacy 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.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

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 ratios and other regulatory capital requirements. Capital is allocated to various business activities of the Group depending on the risks taken by each business unit and in accordance with the requirements of relevant regulatory bodies, taking into account current and future activities within a time frame of 3 years.

Capital adequacy ratios

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

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Public Bank (Hong Kong):		
Consolidated CET1 Capital Ratio	**24.7%**	24.3%
Consolidated Tier 1 Capital Ratio	**24.7%**	24.3%
Consolidated Total Capital Ratio	**25.5%**	25.0%

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

Capital conservation buffer (CCB)

Public Bank (Hong Kong) Group is subject to the 2.5% CCB ratio effective from 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 CCB.

As at 30 June 2023, Public Bank (Hong Kong) Group has reserved a capital buffer, inclusive of CCyB ratio of 1.0%, to the private sector credit exposures in Hong Kong.

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Countercyclical capital buffer (CCyB) (Continued)

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

	30 June 2023 (Unaudited)			
Jurisdiction ("J")	**Applicable JCCyB ratio in effect %**	**Total RWA used in computation of CCyB ratio HK$'000**	**CCyB ratio %**	**CCyB amount HK$'000**
1. Hong Kong	**1.000**	**16,883,959**		
2. Mainland China	**–**	**1,256,388**		
Total		**18,140,347**	**0.931**	**168,840**

	31 December 2022 (Audited)			
Jurisdiction	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK$'000	CCyB ratio %	CCyB amount HK$'000
1. Hong Kong	1.000	16,677,541		
2. Mainland China	–	1,350,990		
Total		18,028,531	0.925	166,775

32. 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 constrain the build-up of excess leverage in the banking sector, and introduce additional safeguards against model risk and measurement errors. The ratio is a volume-based measure calculated as Basel III Tier 1 capital divided by total on-balance sheet and off-balance sheet exposures with reference to the Completion Instructions of the Quarterly Template on Leverage Ratio.

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Public Bank (Hong Kong):		
Consolidated Tier 1 Capital	**6,083,937**	6,081,047
Consolidated Exposure Measure for Leverage Ratio	**36,465,795**	38,324,008
Consolidated Leverage Ratio	**16.7%**	15.9%

Principal subsidiaries and basis of consolidation

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

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

The consolidated capital adequacy ratio of Public Bank (Hong Kong) is computed on a consolidated basis including Public Bank (Hong Kong) and Public Finance. The subsidiaries not included in the computation of the consolidated capital adequacy ratios of Public Bank (Hong Kong) are Public Bank (Nominees) Limited, Public Futures Limited, Public Financial Securities Limited, Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited.

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

Management Discussion and Analysis

OVERVIEW

During the period under review, the economy of Hong Kong improved slightly arising from the full relaxation of anti-pandemic measures and border reopening, but the general operating environment remained challenging and overall productivities remained low as compared to the pre-pandemic period.

As the inflation rate in the US remained high, the US Federal Reserve continued to raise its benchmark rate and HKD interest rates went up under the Linked Exchange Rate System. Under the higher interest rate environment, corporates were conservative in business expansion despite the improved economy. Financial systemic risks were escalating driven by the collapses of some banks in the US and Europe and the heightened geopolitical factors.

Under the aforesaid challenging operating environment, the Group conducted its loan business cautiously with strategic focus on secured lending segments at reasonable interest yields to contain credit risk whilst managing the pace of its funding cost escalation to minimise the adverse impact on its net interest margin. The Group continued to diversify revenue sources into fee-based businesses amidst weaker consumer sentiment and subdued corporate loan demands and will continue to pursue long-term business growth with sustainable profit growth.

FINANCIAL REVIEW

Revenue and earnings

For the six months ended 30 June 2023, the Group's profit after tax decreased by HK$79.5 million or 41.1% to HK$113.8 million as compared to the corresponding period in 2022.

The Group's basic earnings per share for the six months ended 30 June 2023 was HK$0.10. The Board has declared an interim dividend of HK$0.03 per share on 28 June 2023, payable on 2 August 2023.

During the period under review, total interest income of the Group increased by HK$255.7 million or 36.8% to HK$950.4 million contributed mainly from the increase in interest income from debt securities; whilst total interest expenses increased by HK$354.6 million to HK$443.3 million mainly due to the higher interest cost on customer deposits. As a result, the Group's net interest income decreased by HK$98.9 million or 16.3% to HK$507.1 million. In the past year, HKD interest rates increased by around 400 basis points but HKD prime rate adopted by banks increased only by around 75 basis points which limited the extent of lending rate increment on the Group's property mortgage loans and hire purchase loans which accounted for about 70% of the Group's loans and advances. Net fees and commission income increased by HK$28.5 million or 32.6% to HK$115.9 million due to generally improved economic condition in Hong Kong. Other operating income of the Group decreased by HK$1.9 million or 9.1% to HK$18.9 million which was attributed to the one-off reception of government subsidies of HK$2.2 million in the first six months of 2022.

Operating expenses of the Group increased by HK$12.9 million or 3.1% to HK$425.2 million mainly due to the increases in staff costs and IT-related expenses on digital transformation.

Fair value of investment properties increased by HK$6.6 million during the period under review as compared to a revaluation loss of HK$2.2 million in the corresponding period of last year.

Credit loss expenses increased by HK$18.0 million or 29.1% to HK$79.9 million mainly due to the increase in credit charges for unsecured personal lending during the period under review.

Management Discussion and Analysis

FINANCIAL REVIEW (Continued)

Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) recorded a decrease of HK$341.9 million or 1.4% to HK$24.45 billion as at 30 June 2023 from HK$24.79 billion as at 31 December 2022. Customer deposits of the Group declined by HK$1.86 billion or 6.1% to HK$28.59 billion as at 30 June 2023 from HK$30.45 billion as at 31 December 2022. The decrease in customer deposits was mainly due to the limited funding need for supporting subdued lending activities and the Group's funding cost management of fixed deposits to minimise the adverse impact on net interest margin. Meanwhile, the low-cost demand and savings deposits recorded a mild growth of 1.2% during the first six months of 2023.

As at 30 June 2023, total assets of the Group stood at HK$39.96 billion.

Business performance of key subsidiaries

Public Bank (Hong Kong)

During the period under review, total loans and advances (including trade bills) of Public Bank (Hong Kong), a licensed bank and a direct subsidiary of the Company, decreased by HK$312.0 million or 1.6% to HK$19.01 billion as at 30 June 2023 from HK$19.32 billion as at 31 December 2022. Customer deposits (excluding deposits from a subsidiary) decreased by HK$1.93 billion or 7.3% to HK$24.49 billion as at 30 June 2023 from HK$26.42 billion as at 31 December 2022. Impaired loans to total loans ratio of Public Bank (Hong Kong) increased by 3.02% to 4.16% as at 30 June 2023 from 1.14% as at 31 December 2022 amidst the challenging operating environment. Excluding intra-group dividend income, profit of Public Bank (Hong Kong) for the six months ended 30 June 2023 decreased by HK$15.1 million or 18.8% to HK$65.3 million mainly due to lower net interest income and increase in operating expenses with higher staff costs and IT-related expenses on digital transformation.

Public Bank (Hong Kong) will continue to develop and expand its retail and commercial banking businesses and its core customer base, expedite the pace of its digital transformation and develop its banking and financial services and stockbroking businesses.

Public Finance

Total loans and advances of Public Finance, a deposit-taking company and a direct subsidiary of Public Bank (Hong Kong), decreased by HK$26.6 million or 0.5% to HK$5.06 billion as at 30 June 2023 from HK$5.09 billion as at 31 December 2022. Customer deposits increased by HK$69.3 million or 1.6% to HK$4.36 billion as at 30 June 2023 from HK$4.29 billion as at 31 December 2022. Impaired loans to total loans ratio of Public Finance was relatively unchanged at 1.46% as at 30 June 2023 compared with 1.44% as at 31 December 2022. Excluding intra-group dividend income, profit of Public Finance for the six months ended 30 June 2023 decreased by HK$61.3 million or 62.8% to HK$36.3 million mainly due to the increase in interest cost of customer deposits. Due to the limitation of operating as a deposit-taking company, Public Finance could not take low-cost savings and demand deposits and its interest cost from fixed deposits increased significantly under the higher interest rate environment.

Public Finance will continue to focus on its consumer financing business and deposit-taking business, and also embark on its digital transformation.

Management Discussion and Analysis

FINANCIAL REVIEW (Continued)

Segmental information

The Group's businesses comprise three main segments: (i) retail and commercial banking businesses, (ii) wealth management services, stockbroking and securities management, and (iii) other businesses. For the period under review, 90.0% of the Group's operating income and 83.1% of the profit before tax were contributed by retail and commercial banking businesses. Compared to the first half of 2022, the Group's operating income from retail and commercial banking businesses decreased by HK$100.3 million or 14.8% to HK$577.5 million mainly due to the decrease in net interest income of the Group. Profit before tax from this segment decreased by HK$112.0 million or 48.5% to HK$119.1 million mainly due to the aforesaid decrease in net interest income as well as the increase in credit loss expenses of unsecured personal lending. The Group's operating income from wealth management services, stockbroking and securities management increased by HK$25.9 million or 89.6% to HK$54.8 million. Profit before tax from this segment increased by HK$6.5 million or 75.6% to HK$15.1 million during the period under review.

Group's branch network

Public Bank (Hong Kong) has a branch network of 30 branches in Hong Kong and 5 branches in Shenzhen in the People's Republic of China to provide a broad range of commercial and retail banking services. Public Finance has a network of 40 branches in Hong Kong to focus on its core business in personal lending. Winton Financial Limited ("Winton Financial"), another operating subsidiary of the Company which operates under a money lenders licence, has a network of 3 branches in Hong Kong to provide personal financing to its target customer segment. In total, the Group has a combined branch network of 78 branches to serve its customers.

Significant investments

The Company has a significant investment, with a value of 5% or more of the Company's total assets, in Public Bank (Hong Kong). The principal businesses of Public Bank (Hong Kong) are the provision of retail and commercial banking businesses. The investment cost in the subsidiary amounted to HK$6.59 billion or 71.6% of total assets of the Company, and such cost reflected the fair value of the Company's investment. Public Bank (Hong Kong) strategically focuses on loan business development, deposit-taking, stockbroking and bancassurance business operations; and continues to strike a balance between pursuing business growth and maintaining sound liquidity and asset quality. Public Bank (Hong Kong) and its subsidiaries recorded a profit of HK$120.7 million on consolidated basis, which represented an annualised return of 3.7% from the Company's investment. Dividend income received from Public Bank (Hong Kong) was HK$75.7 million during the period under review. Further details of such investment (including the number and percentage of shares held) in Public Bank (Hong Kong) are shown in note 1 to the interim financial statements.

Contingent liabilities and commitments

The Group had no material contingent liabilities (other than those in the normal course of its banking and finance businesses related to treasury and trade finance activities and loan commitments as disclosed in the notes to the interim financial statements) as at the end of the period under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the period under review. There was no material funding required for capital expenditure and its commitments. The Group did not have plans for material investments or purchases of capital assets in the near term. As at 30 June 2023, there was no charge over the assets of the Group. There was also no significant event affecting the Group which had occurred since 30 June 2023.

Management Discussion and Analysis

OPERATIONAL REVIEW

Funding and capital management

The main objective of the Group's funding activities is to ensure the availability of funds at reasonable cost to meet all contractual financial commitments, to fund growth in loans and advances and to generate reasonable returns from available funds. The Group also encourages its subsidiaries to be self-sufficient in funding their business growth. The Group did not have material acquisitions or disposals of subsidiaries or associates during the period under review.

The Group relies principally on its internally generated capital, customer deposits and deposits from financial institutions to fund its retail and commercial banking businesses and its consumer financing business. The Group's cash and cash equivalents are mainly denominated in HKD or USD. Its bank borrowings are in the form of term loans denominated in HKD at floating interest rates and stood at approximately HK$1.51 billion as at 30 June 2023. Based on the level of bank borrowings as compared to the equity of the Group, the Group's gearing ratio remained at a healthy level of 0.17 times as at 30 June 2023, which was relatively the same as compared to the position of 31 December 2022. The bank borrowings as at 30 June 2023 had remaining maturity periods of less than two years. In the normal course of its commercial banking business, Public Bank (Hong Kong) had entered into foreign exchange swaps and forward contracts to reduce the foreign exchange rate risk exposures of the Group. Exposures to fluctuations in foreign exchange rates were minimal. There were no foreign currency investments hedged by foreign currency borrowings and other hedging instruments during the period under review.

The consolidated CET1 capital ratio and total capital ratio of Public Bank (Hong Kong) Group (inclusive of Public Bank (Hong Kong) and Public Finance) stood at 24.7% and 25.5% respectively as at 30 June 2023.

The Group continues to safeguard its capital adequacy position and manage key risks cautiously.

Asset quality and credit management

The Group's impaired loans to total loans ratio increased by 2.36% to 3.59% as at 30 June 2023 from 1.23% as at 31 December 2022 mainly due to the escalation of Public Bank (Hong Kong)'s impaired loan ratio amidst the challenging operating environment. The Group will continue to manage credit risk cautiously and undertake prudent yet flexible business development strategies to strike a balance between business/income growth and prudent risk management.

The direct exposures to Europe and Russia were assessed as insignificant and manageable as the core operations of the Group are principally based in Hong Kong.

Human resources management

The Group is committed to promoting a sound corporate culture by setting out culture values including (but not limited to) caring attitude; discipline; ethics and integrity; excellence; trust; and prudence. The culture values are articulated in policies, procedures and processes that are relevant to the day-to-day or routine business/supporting operations, training and performance appraisal of the Group's staff. Dedicated heads of key departments are responsible to assist the Board to set out the culture related behavioural expectations of staff in carrying out their day-to-day responsibilities; build up an effective, continual and regular communication channel to share examples of misconduct, improper behaviour and disciplines with the staff for their alerts; promote an open exchange of views in relation to culture and behavioural standards; and put in place a clear ownership structure for core risks and culture reform initiatives.

The objective of the Group's human resources management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives taking into account both business performance and the adherence to the Group's culture and behavioural standards, and to promote career development and progression within the Group. Staff enrolled in external training courses, seminars, professional and technical courses in order to update their technical knowledge and skills, to increase their awareness of the market and regulatory developments, and to improve their management and business skills. Staff also participated in social/charitable activities organised by the Group/non-profit making organisations to promote team spirit and social responsibility to the community.

Management Discussion and Analysis

OPERATIONAL REVIEW (Continued)

Human resources management (Continued)

As at 30 June 2023, the Group's staff force stood at 1,190 employees. For the six months ended 30 June 2023, the Group's total staff related costs amounted to HK$266.8 million.

PROSPECTS

The economies of Hong Kong and Mainland China are anticipated to continue to improve on a gradual post-pandemic recovery path in the second half of 2023, but the prospects remain highly uncertain driven by the adverse impact of high and escalating market interest rate environment on business development and the development of geopolitical factors. The risk appetites for corporate investments/business expansion and individual's home and vehicle purchase are expected to remain conservative in the near term in view of the interest rate outlook. Accordingly, loan growth momentum in Hong Kong and Mainland China will continue to be constrained. However, the situation may improve as the economy is under gradual recovery.

As inflation remains high, the US Federal Reserve is anticipated to further adjust its benchmark interest rates upward one or two times in the second half of 2023, which will adversely affect the funding cost of the Group and loan demand of corporate borrowers. The lending rates on the loan book may continue to be constrained by the relatively small adjustment on HKD prime rate. Competition in the banking and financing industry in Hong Kong is also expected to intensify with more intensive usage of technology and higher transparency of product pricing in the industry, which will continue to exert pressure on the pricing of banking and financing products. The increases in compliance-related and system-related costs in meeting the regulatory and supervisory requirements are expected to impact the cost efficiency and earnings growth of banks and financial institutions in Hong Kong. Despite the foregoing, the Group will continue to pursue long-term business and profitability growth in line with its corporate mission and goals. The Group will continue to adopt prudent capital management and liquidity risk management to preserve adequate buffer to meet the challenges ahead.

The Group will continue to seek loan growth at reasonable yields and manage its funding cost to grow net interest income. The Group will continue to adopt sound and flexible marketing strategies to expand customer base and channels of services, launch attractive marketing promotions at reasonable costs, and optimise the utilisation of system resources to enhance service quality and efficiency of banking operations. The Group will also strive for the diversification of income streams by development of fee-based businesses in stockbroking and insurance businesses.

The Group will continue to focus on expanding its retail and commercial banking businesses and its consumer financing business through its extensive branch network of Public Bank (Hong Kong), Public Finance and Winton Financial, supporting its growth in loan business developments, deposit-takings and fee-based businesses, and implementing appropriate marketing strategies at reasonable costs. The Group will continue to optimise and refine the existing products and services in the near term to grow its retail and commercial lending businesses and consumer financing business. Moving forward, the Group will also allocate more resources to drive the digitalisation process of its financial services and business growth from electronic channels for long term productivity and cost efficiency; whilst restructuring its operating processes to achieve higher operational efficiency and cost synergy amongst group companies. The Group will also integrate sustainable development into its business initiatives and expand green financing business.

The Group will stay vigilant of the uncertainties and challenges ahead and strive to expand its banking and financing businesses with disciplined cost control and prudent risk management in the second half of 2023. The Group is also committed to fostering a healthy and strong corporate culture to enhance the Group's cohesiveness with shared vision and values by every staff in the Group.

Other Information

INTERIM DIVIDEND

The Board has on 28 June 2023 declared an interim dividend of HK$0.03 (2022: HK$0.05) per share payable on 2 August 2023 to shareholders whose names appear on the register of members of the Company on 19 July 2023.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

In accordance with Rule 13.51B(1) of the Listing Rules, the changes to information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since publication of the Group's Annual Report 2022 up to 20 July 2023 (being the date of approval of the Group's 2023 Interim Report) are set out below:

Changes in other directorships and major appointments

Ms. Cheah Kim Ling, an Independent Non-Executive Director of the Company, was re-designated from an Independent Non-Executive Director to a Non-Independent Non-Executive Director of Public Bank on 29 April 2023. She was also re-designated from an Independent Non-Executive Director to a Non-Executive Director of the Company, and ceased to be the Chairman and member of the Audit Committee ("AC") and a member of the Nomination and Remuneration Committee ("NRC") on 19 May 2023.

Ms. Phe Kheng Peng has been appointed as an Independent Non-Executive Director, the Chairman and member of the AC, and a member of the NRC of the Company on 19 May 2023.

Changes in positions held with other members of the Group

Ms. Cheah Kim Ling was re-designated as a Non-Executive Director of Public Bank (Hong Kong) and Public Finance, the principal subsidiaries of the Company, on 19 May 2023. Ms. Cheah also ceased to be the Chairman and member of the AC, and a member of the NRC and RMC of Public Bank (Hong Kong), and the Chairman and member of the NRC, Chairman of the Bank Culture and Sustainability Committee ("BCSC"), and a member of the AC and RMC of Public Finance on the same date. She remains as a member of the BCSCs of Public Bank (Hong Kong) and Public Finance, which were renamed from Bank Culture Committees on 23 March 2023.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2023, the Directors' interests and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules were as follows:

Other Information

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

Long positions in ordinary shares of the Company and associated corporations

	Interests in	Name of Directors	Number of ordinary shares					Percentage of interests in the issued share capital
			Directly beneficially owned	Through spouse or minor children	Through controlled corporations	Other interests	Total	%
1.	The Company	The Estate of the late Tan Sri Dato' Sri Dr. Teh Hong Piow *(Note 1)*	–	–	804,017,920 *(Note 2)*	–	804,017,920	73.2312
		Tan Yoke Kong	20,000	32,000	–	*10,000	62,000	0.0056
		Chong Yam Kiang	20,000	–	–	–	20,000	0.0018
		Dato' Chang Kat Kiam	300,000	–	–	–	300,000	0.0273
2.	Public Bank, the ultimate holding company	The Estate of the late Tan Sri Dato' Sri Dr. Teh Hong Piow *(Note 1)*	123,556,410	–	4,420,974,855	–	4,544,531,265	23.4125
		Tan Yoke Kong	1,000	–	–	–	1,000	0.0000
		Chong Yam Kiang	94,200	–	–	–	94,200	0.0005
		Dato' Chang Kat Kiam	628,180	–	–	–	628,180	0.0032
		Lee Chin Guan	1,000,150	–	–	–	1,000,150	0.0052
		Lai Wan	–	93,270	–	–	93,270	0.0005
		Lim Chao Li	151,710	–	–	–	151,710	0.0008
		Cheah Kim Ling	–	51,960	–	–	51,960	0.0003
3.	Campu Lonpac Insurance Plc, a fellow subsidiary	The Estate of the late Tan Sri Dato' Sri Dr. Teh Hong Piow *(Note 1)*	–	–	3,850,000 *(Note 2)*	–	3,850,000	55.0000

* *Jointly held with another person*

Notes:

1. *Tan Sri Dato' Sri Dr. Teh Hong Piow was the Non-Executive Chairman of the Company until his demise on 12 December 2022.*

2. *These shares were held by Public Bank, the Company's ultimate holding company, in which the late Tan Sri Dato' Sri Dr. Teh Hong Piow had direct and indirect interests of 4,544,531,265 shares. The late Tan Sri Dato' Sri Dr. Teh Hong Piow was therefore deemed to be interested in the shares of the Company and Campu Lonpac Insurance Plc, a fellow subsidiary of the Company, to the extent that Public Bank had interests.*

Save as disclosed above, none of the Directors had registered an interest or a short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code at the end of the reporting period.

Other Information

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

As at 30 June 2023, the register of interests and short positions in the shares and underlying shares of the Company kept under section 336 of the SFO showed that, other than the interests of the late Tan Sri Dato' Sri Dr. Teh Hong Piow as disclosed above, the following shareholders had interests of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of ordinary shares	Percentage of interests in the issued share capital %
Substantial shareholder			
Public Bank	Beneficial owner	804,017,920	73.2312

All the interests stated above represent long positions. Save as disclosed above and under the heading "Directors' interests and short positions in shares and underlying shares", no person had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded under section 336 of the SFO at the end of the reporting period.

LOAN AGREEMENT WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

In January 2022, the Company entered into a facility agreement (the "Facility Agreement") with a total of eight financial institutions as the original lenders, United Overseas Bank Limited ("UOB") as mandated lead arranger, bookrunner and underwriter and UOB as the agent (the "Agent") for a HKD term loan facility in an aggregate amount of up to HK$1,100,000,000 (the "Facility"). The Facility replaced the facility agreement dated 23 January 2018 relating to a HK$1,100,000,000 term loan facility made available to the Company by Mizuho Bank, Ltd. and other financial institutions.

The final maturity date of the Facility shall be 36 months after the date of first utilisation of the Facility.

The Facility Agreement provides, among other things, that it is an event of default if Public Bank, the controlling shareholder (currently holding approximately 73.2% interest) of the Company, does not or ceases to beneficially own more than 50% of the issued share capital of, and ownership interests in, the Company free from any security or Public Bank does not or ceases to exercise management control over the Company.

If an event of default occurs, the Agent may, and shall if so directed by the Majority Lenders (as defined in the Facility Agreement), cancel the Facility immediately and demand immediate repayment of all or part of the loans made to the Company together with accrued interest.

The circumstances giving rise to the obligation under Rule 13.18 of the Listing Rules continue to exist.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2023.

Other Information

CORPORATE GOVERNANCE

None of the Directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the 2023 Interim Report, in compliance with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

In addition, following the (i) re-designation of Ms. Cheah Kim Ling from an Independent Non-Executive Director to a Non-Executive Director and (ii) appointment of Ms. Phe Kheng Peng as an Independent Non-Executive Director of the Company on 19 May 2023, the Company had complied with the Listing Rules relating to the composition of the Board and Board Committees. Details of the aforesaid re-designation and appointment were set out in the announcement of the Company dated 18 May 2023.

COMPLIANCE WITH MODEL CODE

The Company has adopted its own code for securities transactions by Directors on terms no less exacting than the required standards set out in the Model Code contained in Appendix 10 of the Listing Rules. All the then Directors as at 30 June 2023 confirmed, following specific enquiry by the Company, that they have complied with the required standards as set out in the Model Code and the Company's own code for securities transactions by Directors throughout the period under review.

REVIEW BY AUDIT COMMITTEE

The AC of the Company comprises three Independent Non-Executive Directors, namely Ms. Phe Kheng Peng, Mr. Lee Chin Guan and Mr. Lim Chao Li, and two Non-Executive Directors, namely Mr. Lai Wan and Mr. Quah Poh Keat. The 2023 Interim Report has been reviewed by the AC.

PUBLICATION OF 2023 INTERIM REPORT

The 2023 Interim Report in electronic form is now available on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.publicfinancial.com.hk. Printed copies are also available upon written request to the Company c/o the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong specifying the name, address and request to receive the Group's Interim Report in printed copy.

APPRECIATION

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

By Order of the Board
Public Financial Holdings Limited
Lai Wan
Chairman

20 July 2023