PUBLIC BANK (HONG KONG) LIMITED

Interim Financial Statements
for the six months ended 30 June 2023

Contents

PUBLIC BANK (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

(Website: www.publicbank.com.hk)

INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

The Board of Directors (the "Board") of Public Bank (Hong Kong) Limited (the "Bank") is pleased to announce the unaudited condensed consolidated results of the Bank and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2023 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2023	2022
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'000
Interest income	7	**935,076**	679,368
Interest expense	7	**(409,328)**	(78,434)
NET INTEREST INCOME		**525,748**	600,934
Fees and commission income	8	**116,348**	87,768
Fees and commission expenses	8	**(1,013)**	(821)
Net fees and commission income		**115,335**	86,947
Other operating income	9	**14,677**	16,675
OPERATING INCOME		**655,760**	704,556
Operating expenses	10	**(430,821)**	(415,268)
Changes in fair value of investment properties		**1,874**	(710)
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		**226,813**	288,578
Credit loss expenses	11	**(77,908)**	(61,802)
PROFIT BEFORE TAX		**148,905**	226,776
Tax	12	**(28,225)**	(41,047)
PROFIT FOR THE PERIOD		**120,680**	185,729

CONDENSED CONSOLIDATED INCOME STATEMENT

	For the six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
ATTRIBUTABLE TO:		
Owners of the Bank	**120,680**	185,729

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	**120,680**	185,729
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)**	(42,866)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**74,249**	142,863
ATTRIBUTABLE TO:		
Owners of the Bank	**74,249**	142,863

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	14	**1,910,159**	3,405,757
Placements with banks and financial institutions maturing after one month but not more than twelve months	15	**1,781,632**	1,826,570
Derivative financial instruments		**1,930**	343
Loans and advances and receivables	16	**23,951,599**	24,289,744
Equity investments at fair value through other comprehensive income	17	**6,804**	6,804
Held-to-collect debt securities at amortised cost	18	**7,364,303**	7,437,495
Deferred tax assets		**38,819**	36,208
Tax recoverable		**11,820**	25,432
Intangible assets	20	**718**	718
Property and equipment	21	**145,992**	150,930
Land held under finance leases	22	**228,678**	232,101
Right-of-use assets		**156,276**	115,359
Investment properties	23	**171,391**	169,517
Goodwill		**242,342**	242,342
Other assets	19	**341,829**	313,089
TOTAL ASSETS		**36,354,292**	38,252,409
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	24	**28,599,510**	30,464,339
Lease liabilities		**163,756**	119,239
Current tax payable		**3,862**	53,083
Deferred tax liabilities		**23,839**	23,867
Other liabilities	19	**372,401**	433,386
TOTAL LIABILITIES		**29,696,372**	31,593,073

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**30 June 2023 (Unaudited) HK$'000**	31 December 2022 (Audited) HK$'000
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK			
Share capital	25	**2,854,045**	2,854,045
Reserves		**3,803,875**	3,805,291
TOTAL EQUITY		**6,657,920**	6,659,336
TOTAL EQUITY AND LIABILITIES		**36,354,292**	38,252,409

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK$'000	**Group reconstruction reserve HK$'000**	**Capital reserve HK$'000**	**Regulatory reserve# HK$'000**	**Retained profits HK$'000**	**Translation reserve HK$'000**	**Total HK$'000**
As at 1 January 2023	**2,854,045**	**3,065**	**17,660**	**46,153**	**3,735,842**	**2,571**	**6,659,336**
Profit for the period	**-**	**-**	**-**	**-**	**120,680**	**-**	**120,680**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(46,431)**	**(46,431)**
Transfer from retained profits to regulatory reserve	**-**	**-**	**-**	**882**	**(882)**	**-**	**-**
Dividends paid in respect of previous year	**-**	**-**	**-**	**-**	**(75,665)**	**-**	**(75,665)**
As at 30 June 2023 (Unaudited)	**2,854,045**	**3,065**	**17,660**	**47,035**	**3,779,975**	**(43,860)**	**6,657,920**

	Share capital HK$'000	Group reconstruction reserve HK$'000	Capital reserve HK$'000	Regulatory reserve# HK$'000	Retained profits HK$'000	Translation reserve HK$'000	Total HK$'000
As at 1 January 2022	2,854,045	3,065	17,660	54,812	3,626,597	80,328	6,636,507
Profit for the period	-	-	-	-	185,729	-	185,729
Other comprehensive income	-	-	-	-	-	(42,866)	(42,866)
Transfer from regulatory reserve to retained profits	-	-	-	(8,592)	8,592	-	-
Dividends paid in respect of previous year	-	-	-	-	(137,759)	-	(137,759)
As at 30 June 2022 (Unaudited)	2,854,045	3,065	17,660	46,220	3,683,159	37,462	6,641,611
Profit for the period	-	-	-	-	145,468	-	145,468
Other comprehensive income	-	-	-	-	-	(34,891)	(34,891)
Transfer from regulatory reserve to retained profits	-	-	-	(67)	67	-	-
Dividends paid in respect of current year	-	-	-	-	(92,852)	-	(92,852)
As at 31 December 2022 (Audited)	2,854,045	3,065	17,660	46,153	3,735,842	2,571	6,659,336

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		**148,905**	226,776
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	**19,716**	18,726
(Increase)/decrease in fair value of investment properties		**(1,874)**	710
Increase in credit loss expenses for loans and advances and receivables		**12,350**	9,759
Net losses on disposal of property and equipment	9	**25**	28
(Decrease)/increase in credit loss expenses for held-to-collect debt securities at amortised cost and bank placements		**(164)**	51
Depreciation of right-of-use assets	10	**48,380**	46,499
Others interest expenses	7	**1,510**	1,394
Gain on termination of leases	9	**(58)**	(1,460)
Payment of dismantling costs		**(176)**	(125)
Exchange differences		**(44,345)**	(41,911)
Profits tax paid		**(68,588)**	(51,984)
Operating profit before changes in operating assets and liabilities		**115,544**	208,327
Decrease in operating assets:			
Decrease/(increase) in placements with banks and financial institutions		**22,967**	(174,966)
Increase in derivative financial instruments		**(1,587)**	(109)
Decrease in loans and advances and receivables		**325,795**	1,055,084
Increase in held-to-collect debt securities at amortised cost		**(26,668)**	(132,191)
Increase in other assets		**(28,740)**	(307,110)
		291,767	440,708
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		**(1,864,829)**	(345,291)
Increase/(decrease) in derivative financial instruments		**5,864**	(4,037)
(Decrease)/increase in other liabilities		**(61,135)**	231,374
		(1,892,119)	(212,713)
Net cash (outflow)/inflow from operating activities		**(1,484,808)**	436,322

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	**(11,380)**	(15,478)
Purchases 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		**(11,243)**	(86,164)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on shares		**(75,665)**	(137,759)
Repayment of lease liabilities		**(45,877)**	(46,062)
Net cash outflow from financing activities		**(121,542)**	(183,821)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(1,617,593)**	166,337
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**4,301,340**	5,165,552
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**2,683,747**	5,331,889
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand	29	**753,329**	1,246,248
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-maturity investment with an original maturity within three months		**93,279**	-
		2,683,747	5,331,889
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		**(363,267)**	(70,959)
Interest received		**903,255**	681,233

NOTES TO INTERIM FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

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

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

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

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

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in compliance with the Banking (Disclosure) Rules issued by the HKMA and 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.

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 financial information relating to the year ended 31 December 2022 that is included in the 2023 interim financial statements as comparative information does not constitute the Bank's statutory annual consolidated audited financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the statutory financial statements for the year ended 31 December 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Bank's external auditors have reported on those financial statements. The Independent Auditor's Report was unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

3. BASIS OF CONSOLIDATION

The unaudited interim condensed consolidated financial statements include the interim financial statements of the Bank 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 Bank. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

3. BASIS OF CONSOLIDATION (Continued)

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

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

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

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

The subsidiaries consolidated for accounting purpose are as follows:

	30 June 2023		31 December 2022		
Name	**Total assets (Unaudited) HK$**	**Total equity (Unaudited) HK$**	Total assets (Audited) HK$	Total equity (Audited) HK$	**Principal activities**
Public Financial Securities Limited	**60,220,795**	**48,530,144**	81,948,722	48,482,580	Securities brokerage
Public Bank (Nominees) Limited	**100,000**	**100,000**	100,000	100,000	Provision of nominee services
Public Futures Limited	**1**	**1**	1	1	Dormant
Public Finance Limited *	**5,942,536,633**	**1,422,006,864**	5,988,047,204	1,406,206,757	Deposit-taking and financing
Public Financial Limited	**10,101,341**	**10,101,341**	10,101,371	10,101,371	Investment holding
Public Securities Limited	**278,132,963**	**239,456,263**	341,950,421	249,408,147	Securities brokerage
Public Securities (Nominees) Limited	**1,119,282**	**1,114,782**	1,113,852	1,110,852	Provision of nominee services

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

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 also complied with the Banking (Disclosure) Rules.

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

The computation of the consolidated total capital ratio and other regulatory capital ratios is based on the consolidation of the Bank and Public Finance Limited ("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 Bank's consolidation group except that liquidity, capital and other performance indicators of Public Financial Securities Limited and Public Securities Limited should satisfy the minimum requirements of the Securities and Futures (Financial Resources) Rules issued by the Securities and Futures Commission ("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 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 CCB ratio for 2022 and 2023 is 2.5%, whilst the required CCyB ratio for 2022 and 2023 is 1.0%.

5. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The Hong Kong Institute of Certified Public Accountants ("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.

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

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.

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.

5. ACCOUNTING POLICIES (Continued)

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.

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.

5. ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

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 mainly the letting of investment properties.

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)	**527,365**	600,995	**(1,617)**	(61)	**-**	-	**525,748**	600,934
Net fees and commission income	**58,921**	58,239	**56,414**	28,708	**-**	-	**115,335**	86,947
Other operating income/(expense)	**9,381**	12,670	**(23)**	223	**5,319**	3,782	**14,677**	16,675
Operating income	**595,667**	671,904	**54,774**	28,870	**5,319**	3,782	**655,760**	704,556
Operating profit after credit loss expenses before tax	**129,219**	217,601	**15,055**	8,575	**4,631**	600	**148,905**	226,776
Tax							**(28,225)**	(41,047)
Profit for the period							**120,680**	185,729
Other segment information								
Depreciation of property and equipment and land held under finance leases	**(19,716)**	(18,726)	**-**	-	**-**	-	**(19,716)**	(18,726)
Depreciation of right-of-use assets	**(48,380)**	(46,499)	**-**	-	**-**	-	**(48,380)**	(46,499)
Changes in fair value of investment properties	**-**	-	**-**	-	**1,874**	(710)	**1,874**	(710)
Credit loss expenses	**(77,908)**	(61,802)	**-**	-	**-**	-	**(77,908)**	(61,802)
Net losses on disposal of property and equipment	**(25)**	(28)	**-**	-	**-**	-	**(25)**	(28)

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	**35,527,163**	37,331,495	**362,039**	446,697	**171,391**	169,517	**36,060,593**	37,947,709
Intangible assets	**-**	-	**718**	718	**-**	-	**718**	718
Goodwill	**242,342**	242,342	**-**	-	**-**	-	**242,342**	242,342
Segment assets	**35,769,505**	37,573,837	**362,757**	447,415	**171,391**	169,517	**36,303,653**	38,190,769
Unallocated assets:								
Deferred tax assets and tax recoverable							**50,639**	61,640
Total assets							**36,354,292**	38,252,409
Segment liabilities	**29,593,595**	31,362,445	**70,546**	149,267	**4,530**	4,411	**29,668,671**	31,516,123
Unallocated liabilities:								
Deferred tax liabilities and tax payable							**27,701**	76,950
Total liabilities							**29,696,372**	31,593,073
Other segment information								
Additions to non-current assets – capital expenditure	**11,380**	184,190	**-**	-	**-**	-	**11,380**	184,190

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	2022
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Segment revenue from external customers:		
Hong Kong	**596,050**	650,415
Mainland China	**59,710**	54,141
	655,760	704,556

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	31 December 2022
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Non-current assets:		
Hong Kong	**923,170**	885,568
Mainland China	**22,227**	25,399
	945,397	910,967

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.

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	**726,354**	632,702
Short term placements and placements with banks	**76,713**	23,373
Held-to-collect debt securities at amortised cost	**132,009**	23,293
	935,076	679,368
Interest expense on:		
Deposits from banks and financial institutions	**12,784**	1,345
Deposits from customers	**393,138**	75,547
Bank loans	**1,896**	148
Others	**1,510**	1,394
	409,328	78,434

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$935,076,000 and HK$409,328,000 (2022: HK$679,368,000 and HK$78,434,000) respectively.

8. NET FEES AND COMMISSION INCOME

	For the six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Fees and commission income:		
Retail and commercial banking	**59,934**	59,060
Wealth management services, stockbroking and securities management	**56,414**	28,708
	116,348	87,768
Less: Fees and commission expenses	**(1,013)**	(821)
	115,335	86,947

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

9. OTHER OPERATING INCOME

	For the six months ended 30 June 2023 (Unaudited) HK$'000	2022 (Unaudited) HK$'000
Gross rental income	**5,337**	3,800
Less: Direct operating expenses	**(18)**	(18)
Net rental income	**5,319**	3,782
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	**58**	1,460
Dividend income from listed investments	**102**	101
Dividend income from unlisted investments	**35**	35
Government subsidies	**-**	1,846
Others	**350**	315
	14,677	16,675

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	**247,283**	239,150
Pension contributions	**12,172**	11,651
Less: Forfeited contributions	**(111)**	(20)
Net contribution to retirement benefit schemes	**12,061**	11,631
	259,344	250,781
Other operating expenses:		
Depreciation of right-of-use assets	**48,380**	46,499
Depreciation of property and equipment and land held under finance leases	**19,716**	18,726
Administrative and general expenses	**34,227**	34,250
Others	**69,154**	65,012
Operating expenses before changes in fair value of investment properties	**430,821**	415,268

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.

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	**(1,790)**	**(1,258)**	**80,635**	**77,587**
- trade bills, accrued interest and other receivables	**(63)**	**(10)**	**558**	**485**
- 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	**-**	**-**	**-**	**-**
	(2,017)	**(1,268)**	**81,193**	**77,908**

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	(9,971)	11,547	60,321	61,897
- trade bills, accrued interest and other receivables	(143)	59	(48)	(132)
- 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)
	(10,077)	11,606	60,273	61,802

12. TAX

	For the six months ended 30 June 2023 (Unaudited) HK$'000	2022 (Unaudited) HK$'000
Current tax charge:		
Hong Kong	**20,363**	32,460
Overseas	**11,985**	15,806
Deferred tax credit, net	**(4,123)**	(7,219)
	28,225	41,047

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.

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

	For the six months ended 30 June 2023 (Unaudited)					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**105,594**		**43,311**		**148,905**	
Tax at the applicable tax rate	**17,423**	**16.5**	**10,828**	**25.0**	**28,251**	**19.0**
Estimated tax effect of net income that are not taxable	**(26)**	**-**	**-**	**-**	**(26)**	**-**
Tax charge at the Group's effective rate	**17,397**	**16.5**	**10,828**	**25.0**	**28,225**	**19.0**

12. TAX (Continued)

	For the six months ended 30 June 2022 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	186,223		40,553		226,776	
Tax at the applicable tax rate	30,727	16.5	10,138	25.0	40,865	18.0
Estimated tax effect of net expenses that are not deductible	174	0.1	8	-	182	0.1
Tax charge at the Group's effective rate	30,901	16.6	10,146	25.0	41,047	18.1

13. DIVIDENDS

(a) Dividends attributable to the interim period

	For the six months ended 30 June			
	2023	2022	**2023**	2022
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$ per ordinary share	HK$ per ordinary share	**HK$'000**	HK$'000
Interim dividend	**4.072**	6.267	**60,331**	92,852

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

13. DIVIDENDS (Continued)

(b) Dividends attributable to the previous financial year, approved 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
Final dividend in respect of the previous year	**5.107**	9.298	**75,665**	137,759

14. CASH AND SHORT TERM PLACEMENTS

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Cash on hand	**162,533**	208,144
Placements with banks and financial institutions	**590,796**	727,282
Money at call and short notice	**1,157,006**	2,470,655
Gross cash and short term placements	**1,910,335**	3,406,081
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	**1,910,159**	3,405,757

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.

15. 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.

16. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Loans and advances to customers	**24,067,753**	24,401,933
Trade bills	**918**	5,368
Loans and advances, and trade bills	**24,068,671**	24,407,301
Accrued interest	**94,257**	81,637
	24,162,928	24,488,938
Other receivables	**3,048**	2,833
Gross loans and advances and receivables	**24,165,976**	24,491,771
Less: Impairment allowances		
- specifically assessed	**(100,158)**	(84,687)
- collectively assessed	**(114,219)**	(117,340)
	(214,377)	(202,027)
Loans and advances and receivables	**23,951,599**	24,289,744

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.

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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	**22,400,598**	22,949,924
Past due but not impaired loans and advances and receivables	**869,074**	1,232,959
Credit impaired loans and advances	**863,700**	293,327
Credit impaired receivables	**32,604**	15,561
Gross loans and advances and receivables	**24,165,976**	24,491,771

About 70% (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.

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(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	**615,081**	**2.56**	79,989	0.33
One year or less but over six months	**50,639**	**0.21**	55,212	0.23
Over one year	**128,551**	**0.53**	117,466	0.48
Loans and advances overdue for more than three months	**794,271**	**3.30**	252,667	1.04
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	**48,262**	**0.20**	15,311	0.06
Total overdue and impaired loans and advances	**863,700**	**3.59**	293,327	1.20

16. 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	**15,956**	1,142
One year or less but over six months	**2,431**	2,406
Over one year	**13,743**	11,833
Trade bills, accrued interest and other receivables overdue for more than three months	**32,130**	15,381
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	**32,604**	15,561

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.

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(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	**752,821**	**73,580**	**826,401**	184,481	83,567	268,048
Impairment allowances specifically assessed	**71,154**	**9,971**	**81,125**	60,781	11,076	71,857
Current market value and fair value of collateral			**854,706**			316,596
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**822,104**	**74,200**	**896,304**	223,782	85,106	308,888
Impairment allowances specifically assessed	**89,567**	**10,591**	**100,158**	73,611	11,076	84,687
Current market value and fair value of collateral			**912,276**			337,328

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.

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 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	**854,706**	316,596
Covered portion of overdue loans and advances	**718,527**	185,601
Uncovered portion of overdue loans and advances	**75,744**	67,066

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$671,179,000 (31 December 2022: HK$61,796,000).

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(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	**863,998**	**3.59**	1,226,246	5.03
Trade bills, accrued interest and other receivables overdue for three months or less	**5,076**		6,713	

16. 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	**23,410,133**	**772,750**	**308,888**	**24,491,771**
New loans/financing originated	**3,004,354**	**12,061**	**2,698**	**3,019,113**
Loans/financing derecognised or repaid during the period (other than write-offs)	**(3,185,783)**	**(17,446)**	**(28,083)**	**(3,231,312)**
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)	**(176,009)**	**176,901**	**(892)**	**-**
Transfer to lifetime expected credit loss credit impaired (Stage 3)	**(134,517)**	**(604,837)**	**739,354**	**-**
Total transfer between stages	**(216,869)**	**(509,528)**	**726,397**	**-**
Write-offs	**-**	**-**	**(113,596)**	**(113,596)**
As at 30 June 2023	**23,011,835**	**257,837**	**896,304**	**24,165,976**
Arising from:				
Loans and advances	**22,948,806**	**255,247**	**863,700**	**24,067,753**
Trade bills, accrued interest and other receivables	**63,029**	**2,590**	**32,604**	**98,223**
	23,011,835	**257,837**	**896,304**	**24,165,976**

The amount outstanding on financial assets that were written off during the period and are still subject to enforcement action amounted to HK$92,817,000.

16. 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	25,342,384	250,878	247,868	25,841,130
New loans/financing originated	5,777,353	1,493	1,369	5,780,215
Loans/financing derecognised or repaid during the year (other than write-offs)	(6,792,631)	(55,895)	(71,249)	(6,919,775)
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)	(275,617)	(74,184)	349,801	-
Total transfer between stages	(916,973)	576,274	340,699	-
Write-offs	-	-	(209,799)	(209,799)
As at 31 December 2022	23,410,133	772,750	308,888	24,491,771
Arising from:				
Loans and advances	23,337,676	770,930	293,327	24,401,933
Trade bills, accrued interest and other receivables	72,457	1,820	15,561	89,838
	23,410,133	772,750	308,888	24,491,771

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK$170,002,000.

16. 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	**22,852,186**	**-**	**-**	**22,852,186**
Special Mention	**159,649**	**257,837**	**-**	**417,486**
Non-performing				
Substandard	**-**	**-**	**668,562**	**668,562**
Doubtful	**-**	**-**	**212,571**	**212,571**
Loss	**-**	**-**	**15,171**	**15,171**
Total	**23,011,835**	**257,837**	**896,304**	**24,165,976**

	31 December 2022 (Audited)			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Internal rating grades:				
Performing				
Pass	23,309,630	-	-	23,309,630
Special Mention	100,503	772,750	-	873,253
Non-performing				
Substandard	-	-	111,070	111,070
Doubtful	-	-	178,224	178,224
Loss	-	-	19,594	19,594
Total	23,410,133	772,750	308,888	24,491,771

16. 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	85,108	32,232	84,687	202,027
New loans/financing originated	37,605	41	335	37,981
Loans/financing derecognised or repaid during the period (other than write-offs)	(36,970)	(2,771)	(50,615)	(90,356)
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)	(1,840)	2,067	(227)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(3,082)	(22,698)	25,780	-
Total transfer between stages	(2,414)	(21,332)	23,746	-
Impact on period end expected credit loss of exposures transferred between stages during the period	(1,409)	21,982	92,170	112,743
Movements due to changes in credit risk	1,335	812	15,557	17,704
Recoveries	-	-	47,874	47,874
Write-offs	-	-	(113,596)	(113,596)
As at 30 June 2023	83,255	30,964	100,158	214,377
Arising from:				
Loans and advances	82,090	30,924	96,650	209,664
Trade bills, accrued interest and other receivables	1,165	40	3,508	4,713
	83,255	30,964	100,158	214,377

16. 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 *	95,900	21,923	65,621	183,444
New loans/financing originated	57,945	-	484	58,429
Loans/financing derecognised or repaid during the year (other than write-offs)	(58,573)	(4,151)	(100,861)	(163,585)
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)	(7,788)	(16,549)	24,337	-
Total transfer between stages	(8,250)	(14,803)	23,053	-
Impact on year end expected credit loss of exposures transferred between stages during the year	(690)	29,372	195,469	224,151
Movements due to changes in credit risk	(1,224)	(109)	13,344	12,011
Recoveries	-	-	97,376	97,376
Write-offs	-	-	(209,799)	(209,799)
As at 31 December 2022	85,108	32,232	84,687	202,027
Arising from:				
Loans and advances	83,880	32,182	81,737	197,799
Trade bills, accrued interest and other receivables	1,228	50	2,950	4,228
	85,108	32,232	84,687	202,027

* *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 19 to the interim financial statements.*

16. 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.

17. 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.

18. 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.

19. 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**	43,005
Other debtors, deposits and prepayments	**253,172**	270,084
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	**26,450**	-
	341,829	313,089

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

Other liabilities

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Interest payable	**176,118**	130,057
Creditors, accruals and other payables *	**191,834**	181,478
Net amount of accounts payable to HKSCC	**4,449**	121,851
	372,401	433,386

* *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.*

20. 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	**1,923**	1,923
Accumulated impairment:		
At the beginning and the end of the period/year	**1,205**	1,205
Net carrying amount:		
At the beginning and the end of the period/year	**718**	718

Intangible assets represent trading rights held by the Group. The trading rights are retained for stock trading and stockbroking activities, and have indefinite useful lives as the trading rights have no expiry date. They comprise five units (31 December 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.

21. PROPERTY AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements, furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000
Cost:			
As at 1 January 2022	22,265	417,924	440,189
Additions	772	36,994	37,766
Disposals/write-off	-	(16,622)	(16,622)
As at 31 December 2022 and 1 January 2023 (Audited)	**23,037**	**438,296**	**461,333**
Additions	**-**	**11,380**	**11,380**
Disposals/write-off	**-**	**(4,604)**	**(4,604)**
As at 30 June 2023 (Unaudited)	**23,037**	**445,072**	**468,109**
Accumulated depreciation:			
As at 1 January 2022	9,103	285,397	294,500
Provided during the year	506	31,962	32,468
Disposals/write-off	-	(16,565)	(16,565)
As at 31 December 2022 and 1 January 2023 (Audited)	**9,609**	**300,794**	**310,403**
Provided during the period	**256**	**16,037**	**16,293**
Disposals/write-off	**-**	**(4,579)**	**(4,579)**
As at 30 June 2023 (Unaudited)	**9,865**	**312,252**	**322,117**
Net carrying amount:			
As at 30 June 2023 (Unaudited)	**13,172**	**132,820**	**145,992**
As at 31 December 2022 (Audited)	13,428	137,502	150,930

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.

22. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
As at 1 January 2022	231,594
Additions	70,822
As at 31 December 2022, 1 January 2023 (Audited) and 30 June 2023 (Unaudited)	**302,416**
Accumulated depreciation and impairment:	
As at 1 January 2022	64,245
Depreciation provided during the year	6,070
As at 31 December 2022 and 1 January 2023 (Audited)	**70,315**
Depreciation provided during the period	**3,423**
As at 30 June 2023 (Unaudited)	**73,738**
Net carrying amount:	
As at 30 June 2023 (Unaudited)	**228,678**
As at 31 December 2022 (Audited)	232,101

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.

23. INVESTMENT PROPERTIES

	HK$'000
At valuation:	
As at 1 January 2022	99,762
Additions	75,602
Changes in fair value recognised in the consolidated income statement	(5,847)
As at 31 December 2022 and 1 January 2023 (Audited)	**169,517**
Changes in fair value recognised in the consolidated income statement	**1,874**
As at 30 June 2023 (Unaudited)	**171,391**

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.

23. INVESTMENT PROPERTIES (Continued)

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

	30 June 2023 (Unaudited)		31 December 2022 (Audited)	
	Range HK$	**Weighted average HK$**	Range HK$	Weighted average HK$
Price per square metre	**79,000 to 774,000**	**462,000**	78,000 to 774,000	461,000

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.

24. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Demand deposits and current accounts	**3,928,820**	3,541,017
Savings deposits	**5,812,914**	6,094,399
Time, call and notice deposits	**18,857,776**	20,828,923
	28,599,510	30,464,339

25. SHARE CAPITAL

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Issued and fully paid:		
14,816,000 (2022: 14,816,000) ordinary shares	**2,854,045**	2,854,045

26. OFF-BALANCE SHEET EXPOSURE

(a) Contingent liabilities, commitments and derivatives

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

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

26. OFF-BALANCE SHEET EXPOSURE (Continued)

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

	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

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

26. OFF-BALANCE SHEET EXPOSURE (Continued)

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

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.

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.

27. LEASES

(a) As lessor

The Group leases its investment properties as disclosed in note 23 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	**5,744**	4,893
Over one year but within two years	**3,297**	4,098
Over two years but within three years	**866**	576
	9,907	9,567

(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	**2,557**	1,795
In the second to fifth years, inclusive	**7,460**	4,493
	10,017	6,288

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Liquid or/and very short term and variable rate financial instruments include loans and advances and receivables, held-to-collect debt securities at amortised cost, customer deposits, certificates of deposit issued and unsecured bank loans. As these financial instruments are liquid or having a short-term maturity or 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.

(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**

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	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.

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.

29. 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	753,329	1,157,006	-	-	-	-	-	1,910,335
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	635,133	835,959	2,207,546	2,007,927	5,287,959	12,266,458	924,994	24,165,976
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	-	238,557	341,829
Gross foreign exchange contracts	-	354,164	75,502	-	-	-	-	429,666
Total financial assets	1,388,507	2,833,899	4,980,288	7,067,619	6,294,338	12,266,458	1,170,355	36,001,464
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	9,789,530	4,938,049	7,409,395	6,438,111	24,425	-	-	28,599,510
Lease liabilities	-	7,400	14,499	57,508	77,722	6,627	-	163,756
Other liabilities	6,896	87,198	70,905	96,394	127	-	110,881	372,401
Gross foreign exchange contracts	-	358,235	77,367	-	-	-	-	435,602
Total financial liabilities	9,881,345	5,721,101	7,582,166	6,692,013	102,274	6,627	110,881	30,096,407
Net liquidity gap	(8,492,838)	(2,887,202)	(2,601,878)	375,606	6,192,064	12,259,831	1,059,474	5,905,057

29. 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	935,426	2,470,655	-	-	-	-	-	3,406,081
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	568,441	1,976,358	1,167,002	2,042,459	5,927,556	12,469,736	340,219	24,491,771
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	157,350	11,240	4,617	3,649	-	136,177	313,089
Gross foreign exchange contracts	-	594,620	-	-	-	-	-	594,620
Total financial assets	1,503,923	5,919,438	4,556,669	5,949,636	7,194,763	12,469,736	483,200	38,077,365
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	9,689,309	6,214,728	9,592,685	4,943,996	23,621	-	-	30,464,339
Lease liabilities	-	7,278	14,784	36,048	52,910	8,219	-	119,239
Other liabilities	4,652	199,399	51,256	34,580	47	-	143,452	433,386
Gross foreign exchange contracts	-	596,279	-	-	-	-	-	596,279
Total financial liabilities	9,801,986	7,266,816	9,708,725	5,104,624	76,578	8,219	143,452	32,110,400
Net liquidity gap	(8,298,063)	(1,347,378)	(5,152,056)	845,012	7,118,185	12,461,517	339,748	5,966,965

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

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management

Interest rate risk 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.

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 the Bank 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.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

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 the Bank.

The Group's assets and liabilities are mainly denominated in Hong Kong dollars ("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.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(a) Currency risk (Continued)

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

	30 June 2023 (Unaudited)					
	Spot assets HK$'million	**Spot liabilities HK$'million**	**Forward purchases HK$'million**	**Forward sales HK$'million**	**Net short position HK$'million**	**Structural assets HK$'million**
USD	**4,245**	**4,011**	**389**	**637**	**(14)**	**-**
RMB	**676**	**719**	**1**	**-**	**(42)**	**1,077**
Others	**904**	**1,461**	**618**	**67**	**(6)**	**-**
	5,825	**6,191**	**1,008**	**704**	**(62)**	**1,077**

	31 December 2022 (Audited)					
	Spot assets HK$'million	Spot liabilities HK$'million	Forward purchases HK$'million	Forward sales HK$'million	Net short position HK$'million	Structural assets HK$'million
USD	5,152	5,078	256	336	(6)	-
RMB	691	731	-	5	(45)	1,123
Others	1,037	1,321	286	3	(1)	-
	6,880	7,130	542	344	(52)	1,123

(b) Price risk

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

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

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management

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

The Group has a credit risk management process to measure, monitor and control credit risk. Its credit policy 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 the Bank 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 the Bank and Public Finance to evaluate the effectiveness of credit reviews, approval and monitoring processes and to ensure that the established credit policies and procedures are complied with.

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management (Continued)

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

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

RMCs of the Bank and Public Finance are responsible for reviewing and assessing the 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 the Bank is assisted by CRMC for discharging its responsibilities on credit risk management issues.

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

The "Neither past due nor impaired loans and advances and receivables" are shown in note 16 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 Boards of the Bank and Public Finance have 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 the Bank and Public Finance or committees delegated by the respective Boards.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

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

The liquidity risk related metrics of the Bank 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.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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 the Bank 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.

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.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Apart from cash-flow projections under normal scenario to manage liquidity under different time horizons, different stress scenarios such as institution-specific stress scenario, 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.

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 the Bank and Public Finance) and the Bank 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	2022
	(Unaudited)	(Unaudited)
Liquidity Maintenance Ratio		
- Public Bank (Hong Kong) Group	**58.1%**	50.8%
- The Bank	**55.8%**	49.3%
- Public Finance	**113.8%**	84.2%
Core Funding Ratio		
- Public Bank (Hong Kong) Group	**143.9%**	146.6%
- The Bank	**141.6%**	145.0%

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

Regulatory liquidity ratios (Continued)

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. the Bank 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 the Bank 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 National Financial Regulatory Administration, the Mainland China Office of the Bank 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%).

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 Bank. The Bank 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 Bank. The Bank also periodically engaged qualified professional assessors to conduct assessments and simulation attacks to assess the robustness of the Bank's cyber security controls.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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. The Bank has established climate-related risk management policy 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 Bank. Moreover, the Bank'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 Bank'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 Bank. The Bank has also conducted climate risk stress testing exercise to identify potential vulnerabilities brought by climate changes and plan for responses towards achieving climate resilience.

Capital management

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

The Group's policy is to maintain a strong capital base to support the development of the Group's businesses and to meet the statutory capital adequacy 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.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

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 the Bank and Public Finance, respectively.

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
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.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital disclosures

The components of capital base include the following items:

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
CET1 capital instruments	**2,854,045**	2,854,045
Retained earnings	**3,584,221**	3,530,387
Disclosed reserves	**6,835**	52,384
CET1 capital before deduction	**6,445,101**	6,436,816
Deduct:		
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	**(58,100)**	(56,226)
Regulatory reserve for general banking risk	**(47,035)**	(46,153)
Goodwill	**(242,342)**	(242,342)
Deferred tax assets in excess of deferred tax liabilities	**(13,687)**	(11,048)
CET1 capital after deduction	**6,083,937**	6,081,047
Additional Tier 1 capital	**-**	-
Tier 1 capital after deductions	**6,083,937**	6,081,047
Reserve attributable to fair value gains	**26,145**	25,302
Regulatory reserve for general banking risk	**47,035**	46,153
Collective provisions	**115,334**	118,620
	162,369	164,773
Tier 2 capital	**188,514**	190,075
Capital base	**6,272,451**	6,271,122
Total risk-weighted assets	**24,639,983**	25,064,770

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

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.

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Leverage ratio

The leverage ratio is introduced into the Basel III framework as a non-risk-based backstop limit to supplement risk-based capital requirements. It aims to 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
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%

The disclosure on leverage ratio has been effective since 31 March 2015 and the relevant disclosures can be viewed in the Regulatory Disclosure Statement for the position date of 30 June 2023 to be published in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 September 2023.

Principal subsidiaries and basis of consolidation

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

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

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

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital instruments

To comply with the Banking (Disclosure) Rules, the Group will present all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group's published interim financial statements in the Regulatory Disclosure Statement for the position date of 30 June 2023 to be published in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 September 2023.

The disclosure will include the following information:

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

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

	Note	**30 June 2023 (Unaudited) HK$'000**	31 December 2022 (Audited) HK$'000
CET1 capital instruments issued by the Bank			
Ordinary shares:			
14,816,000 issued and fully paid ordinary shares	25	**2,854,045**	2,854,045

Regulatory disclosures

Further disclosures with respect to capital adequacy and risk management are shown in the regulatory disclosures templates as required by the Banking (Disclosure) Rules. The Group will publish the Regulatory Disclosure Statement for the position date of 30 June 2023 in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 September 2023.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(A) ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

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

30 June 2023	Gross loans and advances HK$'000	Impairment allowances collectively assessed HK$'000	Impairment allowances specifically assessed HK$'000	New impairment allowances for loans charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	**576,884**	**148**	**55**	**37**	**-**	**569,954**	**98.8**	**9,219**	**-**
Building and construction, property development and investment									
Property development	**262,437**	**26**	**-**	**2**	**-**	**262,412**	**100.0**	**-**	**-**
Property investment	**4,251,214**	**409**	**58**	**55**	**-**	**4,251,214**	**100.0**	**577,892**	**559,722**
Civil engineering works	**129,362**	**88**	**106**	**131**	**-**	**43,617**	**33.7**	**106**	**106**
Electricity and gas	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Recreational activities	**10,241**	**1**	**-**	**-**	**-**	**10,241**	**100.0**	**-**	**-**
Information technology	**818**	**-**	**-**	**-**	**-**	**814**	**99.5**	**-**	**-**
Wholesale and retail trade	**192,436**	**562**	**-**	**704**	**483**	**151,540**	**78.7**	**-**	**-**
Transport and transport equipment	**5,001,641**	**20,648**	**50,330**	**20,306**	**-**	**4,365,281**	**87.3**	**74,120**	**58,547**
Hotels, boarding houses and catering	**49,964**	**5**	**-**	**-**	**-**	**49,964**	**100.0**	**-**	**-**
Financial concerns	**222,244**	**22**	**-**	**-**	**-**	**221,802**	**99.8**	**-**	**-**
Stockbrokers									
Margin lending	**100,000**	**10**	**-**	**9**	**-**	**100,000**	**100.0**	**-**	**-**
Others	**80,000**	**8**	**-**	**-**	**-**	**80,000**	**100.0**	**-**	**-**
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	**14,810**	**1**	**-**	**-**	**-**	**14,810**	**100.0**	**-**	**-**
Others	**584,031**	**58**	**-**	**6**	**-**	**584,030**	**100.0**	**562**	**562**
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	**20,420**	**2**	**-**	**-**	**-**	**20,420**	**100.0**	**-**	**-**
Loans for the purchase of other residential properties	**6,972,824**	**690**	**641**	**641**	**-**	**6,972,824**	**100.0**	**69,552**	**69,552**
Loans for credit card advances	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans for other business purposes	**4,344**	**-**	**-**	**-**	**-**	**4,344**	**100.0**	**-**	**-**
Loans for other private purposes	**3,352,676**	**89,344**	**36,178**	**145,785**	**112,831**	**155,347**	**4.6**	**60,204**	**39,937**
Trade finance	**352,369**	**277**	**-**	**84**	**-**	**337,412**	**95.8**	**-**	**-**
Other loans and advances	**58,426**	**16**	**1**	**1**	**-**	**57,049**	**97.6**	**5,590**	**-**
Sub-total	**22,237,141**	**112,315**	**87,369**	**167,761**	**113,314**	**18,253,075**	**82.1**	**797,245**	**728,426**
Loans and advances for use outside Hong Kong	**1,830,612**	**699**	**9,281**	**1,244**	**282**	**1,685,658**	**92.1**	**66,455**	**65,845**
Total loans and advances (excluding trade bills and other receivables)	**24,067,753**	**113,014**	**96,650**	**169,005**	**113,596**	**19,938,733**	**82.8**	**863,700**	**794,271**

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
(A) ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

	31 December 2022								
	Gross loans and advances HK$'000	Impairment allowances collectively assessed HK$'000	Impairment allowances specifically assessed HK$'000	New impairment allowances for loans charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	581,503	151	62	105	-	574,122	98.7	10,324	10,324
Building and construction, property development and investment									
Property development	243,156	24	-	12	-	243,156	100.0	-	-
Property investment	4,224,404	418	4	4	-	4,224,396	100.0	40,119	40,119
Civil engineering works	146,868	101	-	45	-	60,699	41.3	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	14,888	1	-	-	-	14,888	100.0	-	-
Information technology	837	-	-	-	-	837	100.0	-	-
Wholesale and retail trade	245,929	582	-	371	-	205,976	83.8	-	-
Transport and transport equipment	5,010,361	21,613	31,130	22,883	237	4,425,762	88.3	44,356	40,709
Hotels, boarding houses and catering	50,660	5	-	-	-	50,660	100.0	-	-
Financial concerns	237,547	24	-	15	-	237,428	99.9	-	-
Stockbrokers									
Margin lending	12,000	1	-	-	-	10,819	90.2	-	-
Others	80,000	8	-	-	-	80,000	100.0	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	8,127	1	-	-	-	8,127	100.0	-	-
Others	520,153	52	-	-	-	520,152	100.0	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	16,686	2	-	-	-	16,686	100.0	-	-
Loans for the purchase of other residential properties	7,111,990	707	6	16	-	7,111,990	100.0	55,277	46,041
Loans for credit card advances	-	-	-	-	-	-	-	-	-
Loans for other business purposes	4,884	-	-	-	-	4,881	99.9	-	-
Loans for other private purposes	3,352,399	91,667	40,918	268,917	208,650	146,210	4.4	66,671	40,424
Trade finance	534,541	193	-	67	-	518,185	96.9	-	-
Other loans and advances	61,905	22	-	-	-	60,314	97.4	-	-
Sub-total	22,458,838	115,572	72,120	292,435	208,887	18,515,288	82.4	216,747	177,617
Loans and advances for use outside Hong Kong	1,943,095	490	9,617	3,566	912	1,798,752	92.6	76,580	75,050
Total loans and advances (excluding trade bills and other receivables)	24,401,933	116,062	81,737	296,001	209,799	20,314,040	83.2	293,327	252,667

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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(B) INTERNATIONAL CLAIMS

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

The following tables illustrate the international claims on individual countries or areas taking into account the recognised risk transfer, amounting to 10% or more of the aggregate international claims.

	30 June 2023				
	Banks HK$'million	**Official sector HK$'million**	**Non-bank financial institutions HK$'million**	**Non-financial private sector HK$'million**	**Total HK$'million**
1. Developed countries	**1,790**	**9**	**-**	**214**	**2,013**
2. Offshore centres, of which	**821**	**6**	**117**	**1,914**	**2,858**
– Hong Kong	**453**	**6**	**37**	**1,261**	**1,757**
3. Developing Asia-Pacific, of which	**3,788**	**61**	**-**	**1,763**	**5,612**
– China	**2,714**	**61**	**-**	**1,726**	**4,501**

	31 December 2022				
	Banks HK$'million	Official sector HK$'million	Non-bank financial institutions HK$'million	Non-financial private sector HK$'million	Total HK$'million
1. Developed countries	1,803	10	-	227	2,040
2. Offshore centres, of which	1,059	5	109	2,146	3,319
– Hong Kong	487	5	29	1,531	2,052
3. Developing Asia-Pacific, of which	5,007	66	-	1,963	7,036
– China	3,411	66	-	1,923	5,400

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

(C) MAINLAND ACTIVITIES

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

	30 June 2023		
Types of counterparties	**On-balance sheet exposure HK$'million**	**Off-balance sheet exposure HK$'million**	**Total HK$'million**
Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	**87**	**-**	**87**
People's Republic of China ("PRC") nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**77**	**-**	**77**
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**2**	**-**	**2**
Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	**1,456**	**-**	**1,456**
Total	**1,622**	**-**	**1,622**
Total assets after provision	**32,509**		
On-balance sheet exposures as percentage of total assets	**4.99%**		

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
(C) MAINLAND ACTIVITIES (Continued)

	31 December 2022		
Types of counterparties	On-balance sheet exposure HK$'million	Off-balance sheet exposure HK$'million	Total HK$'million
Central government, central government-owned entities and their subsidiaries and JVs	95	-	95
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	82	-	82
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	2	-	2
Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	1,560	-	1,560
Total	1,739	-	1,739
Total assets after provision	34,386		
On-balance sheet exposures as percentage of total assets	5.06%		

Note:

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

BUSINESS PERFORMANCE

For the six months ended 30 June 2023, the Group recorded a profit after tax of HK$120.7 million, representing a decrease of HK$65.0 million or 35.0% as compared to the profit after tax of HK$185.7 million for the corresponding period in 2022.

During the period under review, the Group's interest income increased by HK$255.7 million or 37.6% to HK$935.1 million mainly driven by the higher interest yield on debt securities; whilst interest expense increased by HK$330.9 million or 422.1% to HK$409.3 million mainly driven by the higher interest cost on fixed deposits. Consequently, the Group's net interest income decreased by HK$75.2 million or 12.5% to HK$525.7 million from HK$600.9 million in the corresponding period in 2022. 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. Non-interest income of the Group increased by HK$26.4 million or 25.5% to HK$130.0 million, mainly due to higher fees and commission income from wealth management services, stockbroking and securities management arising from the generally improved economic condition and relaxed anti-pandemic measures in the period under review. The Group's operating expenses increased by HK$15.5 million or 3.7% to HK$430.8 million mainly due to higher staff costs and IT-related expenses on digital transformation in the period under review.

Fair value of investment properties increased by HK$1.9 million during the period under review as compared to a revaluation loss of HK$0.7 million in the corresponding period of last year.

Overall impaired loans to total loans ratio of the Group increased by 2.39% to 3.59% as at 30 June 2023 from 1.20% as at 31 December 2022 amidst the challenging operating environment. Credit loss expenses increased by HK$16.1 million or 26.1% to HK$77.9 million mainly due to the escalation in credit charges for unsecured personal lending during the period under review.

Total loans and advances (including trade bills) of the Group decreased by HK$338.6 million or 1.4% to HK$24.07 billion as at 30 June 2023 from HK$24.41 billion as at 31 December 2022. The Group's deposits from customers decreased by HK$1.86 billion or 6.1% to HK$28.60 billion as at 30 June 2023 as compared to the position of 31 December 2022 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. Total assets of the Group stood at HK$36.35 billion as at 30 June 2023.

The Group will continue to expand its retail and commercial banking and consumer financing businesses, as well as its wealth management services, stockbroking and securities management fee-based businesses through the extensive branch network of the Group, offering competitive products whilst providing premium customer service. Moving forward, the Group will also allocate more resources to drive the digitalisation process of its banking services and business growth via electronic channels in line with its fintech development plan; whilst restructuring its operating processes to achieve higher operational efficiency and cost synergy amongst group companies.

By Order of the Board
Public Bank (Hong Kong) Limited
Lai Wan
Chairman

20 July 2023