

PUBLIC BANK (HONG KONG) LIMITED

Interim Financial Statements
for the six months ended 30 June 2022

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PUBLIC BANK (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

(Website: www.publicbank.com.hk)

INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

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 2022 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended	
		30 June 2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Interest income	7	679,368	714,870
Interest expense	7	(78,434)	(80,229)
NET INTEREST INCOME		600,934	634,641
Fees and commission income	8	87,768	105,223
Fees and commission expenses	8	(821)	(1,261)
Net fees and commission income		86,947	103,962
Other operating income	9	16,675	22,861
OPERATING INCOME		704,556	761,464
Operating expenses	10	(415,268)	(424,571)
Changes in fair value of investment properties		(710)	972
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		288,578	337,865
Credit loss expenses	11	(61,802)	(48,540)
PROFIT BEFORE TAX		226,776	289,325
Tax	12	(41,047)	(51,583)
PROFIT FOR THE PERIOD		185,729	237,742

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended
30 June

2022	2021
(Unaudited)	(Unaudited)
HK\$'000	HK\$'000

ATTRIBUTABLE TO:

Owners of the Bank

185,729	237,742
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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	185,729	237,742
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	<u>(42,866)</u>	<u>10,377</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>142,863</u>	<u>248,119</u>
ATTRIBUTABLE TO:		
Owners of the Bank	<u>142,863</u>	<u>248,119</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
	Notes		
ASSETS			
Cash and short term placements	14	4,340,614	4,320,114
Placements with banks and financial institutions maturing after one month but not more than twelve months	15	2,610,876	2,290,111
Derivative financial instruments		1,660	1,551
Loans and advances and receivables	16	24,592,811	25,657,654
Equity investments at fair value through other comprehensive income	17	6,804	6,804
Held-to-collect debt securities at amortised cost	18	6,611,244	6,479,066
Deferred tax assets		43,443	38,669
Tax recoverable		427	1,897
Intangible assets	20	718	718
Property and equipment	21	145,059	145,689
Land held under finance leases	22	235,525	167,349
Right-of-use assets		157,874	174,950
Investment properties	23	99,052	99,762
Goodwill		242,342	242,342
Other assets	19	545,189	238,079
TOTAL ASSETS		39,633,638	39,864,755
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		370,879	465,638
Derivative financial instruments		2,711	6,748
Customer deposits at amortised cost	24	31,836,219	32,181,510
Lease liabilities		161,741	178,861
Current tax payable		66,003	72,250
Deferred tax liabilities		21,967	22,367
Other liabilities	19	532,507	300,874
TOTAL LIABILITIES		32,992,027	33,228,248

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
	Note		
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK			
Share capital	25	2,854,045	2,854,045
Reserves		3,787,566	3,782,462
TOTAL EQUITY		6,641,611	6,636,507
TOTAL EQUITY AND LIABILITIES		39,633,638	39,864,755

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 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

	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 2021	2,854,045	3,065	17,660	53,280	3,362,745	53,039	6,343,834
Profit for the period	-	-	-	-	237,742	-	237,742
Other comprehensive income	-	-	-	-	-	10,377	10,377
Transfer from regulatory reserve to retained profits	-	-	-	(9,083)	9,083	-	-
Dividends paid in respect of previous year	-	-	-	-	(110,424)	-	(110,424)
As at 30 June 2021 (Unaudited)	2,854,045	3,065	17,660	44,197	3,499,146	63,416	6,481,529
Profit for the period	-	-	-	-	238,341	-	238,341
Other comprehensive income	-	-	-	-	-	16,912	16,912
Transfer from retained profits to regulatory reserve	-	-	-	10,615	(10,615)	-	-
Dividends paid in respect of current year	-	-	-	-	(100,275)	-	(100,275)
As at 31 December 2021 (Audited)	2,854,045	3,065	17,660	54,812	3,626,597	80,328	6,636,507

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	
		2022	2021
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		226,776	289,325
Adjustments for:			
Dividend income from listed investments	9	(101)	(129)
Dividend income from unlisted investments	9	(35)	(35)
Depreciation of property and equipment and land held under finance leases	10	18,726	17,306
Decrease/(increase) in fair value of investment properties		710	(972)
Increase/(decrease) in credit loss expenses for loans and advances and receivables		9,759	(1,520)
Net losses on disposal of property and equipment	9	28	7
Increase in credit loss expenses for held-to-collect debt securities at amortised cost and bank placements		51	31
Depreciation of right-of-use assets	10	46,499	46,566
Others interest expenses	7	1,394	1,531
Gain on termination of leases	9	(1,460)	(1,052)
Payment of dismantling costs		(125)	(92)
Exchange differences		(41,911)	9,844
Profits tax paid		(51,984)	(54,494)
Operating profit before changes in operating assets and liabilities		208,327	306,316
Decrease in operating assets:			
Increase in placements with banks and financial institutions		(174,966)	(267,426)
(Increase)/decrease in derivative financial instruments		(109)	17,261
Decrease in loans and advances and receivables		1,055,084	423,415
Increase in held-to-collect debt securities at amortised cost		(132,191)	(233,525)
(Increase)/decrease in other assets		(307,110)	108,672
		440,708	48,397
Decrease in operating liabilities:			
(Decrease)/increase in deposits and balances of banks and other financial institutions at amortised cost		(94,759)	662,854
Decrease in customer deposits at amortised cost		(345,291)	(867,214)
(Decrease)/increase in derivative financial instruments		(4,037)	9,471
Increase/(decrease) in other liabilities		231,374	(193,005)
		(212,713)	(387,894)
Net cash inflow/(outflow) from operating activities		436,322	(33,181)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	For the six months ended	
		2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	21	(15,478)	(12,429)
Purchases of land held under finance leases	22	(70,822)	-
Sales proceeds from disposal of property and equipment		-	5
Dividends received from listed investments	9	101	129
Dividends received from unlisted investments	9	35	35
Net cash outflow from investing activities		<u>(86,164)</u>	<u>(12,260)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on shares		(137,759)	(110,424)
Repayment of lease liabilities		(46,062)	(47,610)
Net cash outflow from financing activities		<u>(183,821)</u>	<u>(158,034)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		166,337	(203,475)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		5,165,552	6,173,647
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		5,331,889	5,970,172
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand	29	1,246,248	1,336,899
Money at call and short notice with an original maturity within three months		3,059,672	4,563,379
Placements with banks and financial institutions with an original maturity within three months		1,025,969	69,894
		<u>5,331,889</u>	<u>5,970,172</u>
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		(70,959)	(103,859)
Interest received		681,233	718,867

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, which is incorporated in Malaysia.

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

Name	Issued ordinary share capital HK\$	Percentage of equity attributable to the Bank		Principal activities
		Direct %	Indirect %	
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

NOTES TO INTERIM FINANCIAL STATEMENTS

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in compliance with the Banking (Disclosure) Rules issued by the HKMA and in accordance with the same accounting policies adopted in the Group's 2021 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 2021 Annual Report.

The financial information relating to the year ended 31 December 2021 that is included in the 2022 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 2021 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Bank's external auditors have reported on those financial statements. The Independent Auditor's Report was unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

3. BASIS OF CONSOLIDATION

The interim condensed consolidated financial statements include the interim financial statements of the Bank and its subsidiaries for the period ended 30 June 2022.

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.

NOTES TO INTERIM FINANCIAL STATEMENTS

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:

Name	30 June 2022		31 December 2021		Principal activities
	Total assets (Unaudited) HK\$	Total equity (Unaudited) HK\$	Total assets (Audited) HK\$	Total equity (Audited) HK\$	
Public Financial Securities Limited	138,666,758	48,479,733	52,279,251	48,474,348	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*	5,866,000,413	1,421,769,050	6,274,791,153	1,424,967,037	Deposit-taking and financing
Public Financial Limited	10,101,371	10,101,371	10,101,371	10,101,371	Investment holding
Public Securities Limited	463,042,284	243,610,047	320,784,240	235,921,857	Securities brokerage
Public Securities (Nominees) Limited	1,110,678	1,109,178	1,113,425	1,110,425	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.

NOTES TO INTERIM FINANCIAL STATEMENTS

4. BASIS OF CAPITAL DISCLOSURES

The Group has complied with the capital requirements during the interim reporting period related to the capital base and the 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 of the Group 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 2021 and 2022 is 2.5%, whilst the required CCyB ratio for 2021 and 2022 is 1.0%.

NOTES TO INTERIM FINANCIAL STATEMENTS

5. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The Hong Kong Institute of Certified Public Accountants has issued a number of revised Hong Kong Financial Reporting Standards (“HKFRSs”), which are generally effective for accounting periods beginning on or after 1 January 2022. The Group has adopted the following revised standards for the first time for the interim financial statements:

- | | |
|---|--|
| • Amendments to HKFRS 3 | <i>Reference to the Conceptual Framework</i> |
| • Amendments to HKAS 16 | <i>Property, Plant and Equipment: Proceeds before Intended Use</i> |
| • Amendments to HKAS 37 | <i>Onerous Contracts – Costs of Fulfilling a Contract</i> |
| • Annual Improvements to HKFRSs 2018-2020 | Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 |

The nature and impact of the amendments are described below.

Amendments to HKFRS 3 – *Reference to the Conceptual Framework*

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 (the “Conceptual Framework”) without significantly changing its requirements. The amendments add an exception to the recognition principle of HKFRS 3 *Business Combinations* to avoid the issue of potential “day 2” gains or losses arising from liabilities and contingent liabilities that would be within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or HK(IFRIC)-Int 21 *Levies*, if incurred separately. The exception requires entities to apply the criteria in HKAS 37 or HK(IFRIC)-Int 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. The amendments also add a new paragraph to HKFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. These amendments had no impact on the interim financial statements of the Group as there were no contingent assets, liabilities and contingent liabilities within the scope of these amendments arisen during the period.

Amendments to HKAS 16 – *Property, Plant and Equipment: Proceeds before Intended Use*

The amendments to HKAS 16 prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. These amendments had no impact on the interim financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

NOTES TO INTERIM FINANCIAL STATEMENTS

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

Amendments to HKAS 37 – *Onerous Contracts – Costs of Fulfilling a Contract*

An onerous contract is a contract under which the unavoidable costs (i.e. the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services to include both incremental costs (e.g. the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g. depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group applied the amendments to the contracts for which it had not fulfilled all of its obligations at the beginning of the reporting period. Prior to the application of the amendments, the Group had not identified any contracts as being onerous as the unavoidable costs under the contracts comprised only incremental costs directly related to the contracts. These amendments have no impact on the interim financial statements of the Group.

Annual Improvements to HKFRSs 2018-2020 – Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

Annual Improvements to HKFRSs 2018-2020 set out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41.

- The amendment to HKFRS 1 permits a subsidiary that elects to apply paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to HKFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of HKFRS 1. This amendment had no impact on the interim financial statements of the Group as it is not a first-time adopter.
- The amendment to HKFRS 9 clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for HKAS 39 *Financial Instruments: Recognition and Measurement*. This amendment had no impact on the interim financial statements of the Group as there were no modifications of the Group's financial instruments during the period.
- HKFRS 16 *Leases* removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

NOTES TO INTERIM FINANCIAL STATEMENTS

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

Annual Improvements to HKFRSs 2018-2020 – Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 (Continued)

- The amendment to HKAS 41 removes the requirement to exclude cash flows for taxation when measuring the fair value of assets within the scope of HKAS 41. This amendment had no impact on the interim financial statements of the Group as it did not have assets in scope of HKAS 41 as at the reporting date.

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 HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies*¹
- Amendments to HKAS 8 *Definition of Accounting Estimates*¹

¹ *Effective for annual periods beginning on or after 1 January 2023*

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

Amendments to HKAS 1 (Revised) *Presentation of Financial Statements* and HKFRS Practice Statement 2 *Making Materiality Judgements* replace the requirement of entities to disclose their significant accounting policies with a requirement to disclose their material 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. The amendments to HKFRS Practice Statement 2 provide guidance on applying materiality judgements on accounting policy disclosures. In assessing the materiality of accounting policy information, entities are required to consider both the size of the transactions, other events or conditions and the nature of them. The amendments are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provide a new definition for accounting estimates. The new definition states that accounting estimates are monetary amounts that are subject to material uncertainty. The amendments clarify the distinction among changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO INTERIM 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.

NOTES TO INTERIM FINANCIAL STATEMENTS

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table discloses the revenue and profit information for operating segments for the six months ended 30 June 2022 and 30 June 2021.

	Retail and commercial banking businesses For the six months ended 30 June		Wealth management services, stockbroking and securities management For the six months ended 30 June		Other businesses For the six months ended 30 June		Total For the six months ended 30 June	
	2022	2021	2022	2021	2022	2021	2022	2021
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue								
External:								
Net interest income/(expense)	600,995	634,730	(61)	(89)	-	-	600,934	634,641
Net fees and commission income	58,239	60,502	28,708	43,460	-	-	86,947	103,962
Other operating income/(expense)	12,670	19,073	223	(4)	3,782	3,792	16,675	22,861
Operating income	671,904	714,305	28,870	43,367	3,782	3,792	704,556	761,464
Operating profit after credit loss expenses before tax	217,601	263,277	8,575	23,820	600	2,228	226,776	289,325
Tax							(41,047)	(51,583)
Profit for the period							185,729	237,742
Other segment information								
Depreciation of property and equipment and land held under finance leases	(18,726)	(17,306)	-	-	-	-	(18,726)	(17,306)
Depreciation of right-of-use assets	(46,499)	(46,566)	-	-	-	-	(46,499)	(46,566)
Changes in fair value of investment properties	-	-	-	-	(710)	972	(710)	972
Credit loss expenses	(61,802)	(48,540)	-	-	-	-	(61,802)	(48,540)
Net losses on disposal of property and equipment	(28)	(7)	-	-	-	-	(28)	(7)

NOTES TO INTERIM FINANCIAL STATEMENTS

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table discloses certain assets and liabilities information regarding operating segments as at 30 June 2022 and 31 December 2021.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Segment assets other than intangible assets and goodwill	38,613,937	39,086,148	633,719	395,219	99,052	99,762	39,346,708	39,581,129
Intangible assets	-	-	718	718	-	-	718	718
Goodwill	242,342	242,342	-	-	-	-	242,342	242,342
Segment assets	38,856,279	39,328,490	634,437	395,937	99,052	99,762	39,589,768	39,824,189
Unallocated assets: Deferred tax assets and tax recoverable							43,870	40,566
Total assets							39,633,638	39,864,755
Segment liabilities	32,559,142	33,018,221	341,321	111,985	3,594	3,425	32,904,057	33,133,631
Unallocated liabilities: Deferred tax liabilities and tax payable							87,970	94,617
Total liabilities							32,992,027	33,228,248
Other segment information								
Additions to non-current assets – capital expenditure	86,300	28,716	-	-	-	-	86,300	28,716

NOTES TO INTERIM FINANCIAL STATEMENTS

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 2022 and 30 June 2021.

	For the six months ended	
	30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Segment revenue from external customers:		
Hong Kong	650,415	705,325
Mainland China	54,141	56,139
	704,556	761,464

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 2022 and 31 December 2021.

	30 June	31 December
	2022	2021
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Non-current assets:	853,258	802,425
Hong Kong	27,312	28,385
Mainland China		
	880,570	830,810

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% (2021: less than 10%) of the Group's total operating income or revenue.

NOTES TO INTERIM FINANCIAL STATEMENTS

7. INTEREST INCOME AND EXPENSE

	For the six months ended	
	30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income from:		
Loans and advances and receivables	632,702	667,169
Short term placements and placements with banks	23,373	24,125
Held-to-collect debt securities at amortised cost	23,293	23,576
	679,368	714,870
Interest expense on:		
Deposits from banks and financial institutions	1,345	617
Deposits from customers	75,547	77,913
Bank loans	148	168
Others	1,394	1,531
	78,434	80,229

Interest income and interest expense for the six months ended 30 June 2022, 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\$679,368,000 and HK\$78,434,000 (2021: HK\$714,870,000 and HK\$80,229,000) respectively.

NOTES TO INTERIM FINANCIAL STATEMENTS

8. NET FEES AND COMMISSION INCOME

	For the six months ended	
	30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Fees and commission income:		
Retail and commercial banking	59,060	61,763
Wealth management services, stockbroking and securities management	28,708	43,460
	87,768	105,223
Less: Fees and commission expenses	(821)	(1,261)
	86,947	103,962

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

NOTES TO INTERIM FINANCIAL STATEMENTS

9. OTHER OPERATING INCOME

	For the six months ended	
	30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Gross rental income	3,800	3,812
Less: Direct operating expenses	(18)	(20)
Net rental income	3,782	3,792
Gains less losses arising from dealing in foreign currencies	10,215	20,097
Net losses on derivative financial instruments	(1,051)	(3,663)
	9,164	16,434
Net losses on disposal of property and equipment	(28)	(7)
Gain on termination of leases	1,460	1,052
Dividend income from listed investments	101	129
Dividend income from unlisted investments	35	35
Government subsidies	1,846	977
Others	315	449
	16,675	22,861

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.

For the six months ended 30 June 2021, the government subsidy was granted under the Financial Industry Recruitment Scheme for Tomorrow which aims to create full-time jobs in the financial services sector under the same fund.

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 2022 and 30 June 2021.

NOTES TO INTERIM FINANCIAL STATEMENTS

10. OPERATING EXPENSES

	For the six months ended	
	30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Staff costs:		
Salaries and other staff costs	239,150	252,302
Pension contributions	11,651	11,760
Less: Forfeited contributions	(20)	(24)
Net contribution to retirement benefit schemes	11,631	11,736
	250,781	264,038
Other operating expenses:		
Depreciation of right-of-use assets	46,499	46,566
Depreciation of property and equipment and land held under finance leases	18,726	17,306
Administrative and general expenses	34,250	33,602
Others	65,012	63,059
Operating expenses before changes in fair value of investment properties	415,268	424,571

As at 30 June 2022 and 30 June 2021, 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 2022 and 30 June 2021 arose in respect of staff who left the schemes during the periods.

NOTES TO INTERIM FINANCIAL STATEMENTS

11. CREDIT LOSS EXPENSES

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

	For the six months ended 30 June 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

NOTES TO INTERIM FINANCIAL STATEMENTS

11. CREDIT LOSS EXPENSES (Continued)

	For the six months ended 30 June 2021			
	(Unaudited)			
		Lifetime expected credit loss not credit impaired (Stage 2)	Lifetime expected credit loss credit impaired (Stage 3)	Total
	12-month expected credit loss (Stage 1) HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net charge for/(write-back of) credit loss expenses:				
- loans and advances	115	6,085	42,062	48,262
- trade bills, accrued interest and other receivables	3	48	186	237
- cash and short term placements	(30)	-	-	(30)
- placements with banks and financial institutions	50	-	-	50
- held-to-collect debt securities at amortised cost	11	-	-	11
- loan commitments	10	-	-	10
	159	6,133	42,248	48,540

NOTES TO INTERIM FINANCIAL STATEMENTS

12. TAX

	For the six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Current tax charge:		
Hong Kong	32,460	41,810
Overseas	15,806	9,494
Deferred tax (credit)/charge, net	<u>(7,219)</u>	<u>279</u>
	<u>41,047</u>	<u>51,583</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 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 2022 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>186,223</u>		<u>40,553</u>		<u>226,776</u>	
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	<u>30,901</u>	<u>16.6</u>	<u>10,146</u>	<u>25.0</u>	<u>41,047</u>	<u>18.1</u>

NOTES TO INTERIM FINANCIAL STATEMENTS

12. TAX (Continued)

	For the six months ended 30 June 2021 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>250,442</u>		<u>38,883</u>		<u>289,325</u>	
Tax at the applicable tax rate	41,323	16.5	9,721	25.0	51,044	17.6
Estimated tax effect of net expenses that are not deductible	318	0.1	221	0.6	539	0.2
Tax charge at the Group's effective rate	<u>41,641</u>	16.6	<u>9,942</u>	25.6	<u>51,583</u>	17.8

13. DIVIDENDS

(a) Dividends attributable to the interim period

	For the six months ended 30 June			
	2022 (Unaudited) HK\$ per ordinary share	2021 (Unaudited) HK\$ per ordinary share	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Interim dividend	<u>6.267</u>	6.768	<u>92,852</u>	100,275

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

NOTES TO INTERIM FINANCIAL STATEMENTS

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			
	2022 (Unaudited) HK\$ per ordinary share	2021 (Unaudited) HK\$ per ordinary share	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Final dividend in respect of the previous year	9.298	7.453	137,759	110,424

14. CASH AND SHORT TERM PLACEMENTS

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Cash on hand	169,379	191,781
Placements with banks and financial institutions	1,076,869	849,907
Money at call and short notice	3,094,784	3,278,838
Gross cash and short term placements	4,341,032	4,320,526
Less: Impairment allowances collectively assessed		
As at 1 January 2022 and 2021	(412)	(605)
Credit loss expenses (charged)/released to the consolidated income statement during the period/year	(6)	193
	(418)	(412)
Cash and short term placements	4,340,614	4,320,114

Over 90% (31 December 2021: over 90%) of the placements were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's Investors Service ("Moody's"), an external credit agency.

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

NOTES TO INTERIM FINANCIAL STATEMENTS

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

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Gross placements with banks and financial institutions	2,611,137	2,290,340
Less: Impairment allowances collectively assessed		
As at 1 January 2022 and 2021	(229)	(177)
Credit loss expenses charged to the consolidated income statement during the period/year	(32)	(52)
	(261)	(229)
Placements with banks and financial institutions	2,610,876	2,290,111

Over 90% (31 December 2021: over 90%) of the placements maturing after one month but not more than twelve months were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's.

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

NOTES TO INTERIM FINANCIAL STATEMENTS

16. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Loans and advances to customers	24,706,793	25,754,537
Trade bills	10,985	11,989
Loans and advances, and trade bills	24,717,778	25,766,526
Accrued interest	65,721	71,106
Other receivables	24,783,499	25,837,632
	2,547	3,498
Gross loans and advances and receivables	24,786,046	25,841,130
Less: Impairment allowances		
- specifically assessed	(73,920)	(65,621)
- collectively assessed	(119,315)	(117,855)
	(193,235)	(183,476)
Loans and advances and receivables	24,592,811	25,657,654

Over 90% (31 December 2021: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (31 December 2021: 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.

NOTES TO INTERIM FINANCIAL STATEMENTS

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

Loans and advances and receivables are summarised as follows:

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Neither past due nor impaired loans and advances and receivables	24,008,925	25,033,237
Past due but not impaired loans and advances and receivables	501,206	560,025
Credit impaired loans and advances	263,411	234,381
Credit impaired receivables	12,504	13,487
Gross loans and advances and receivables	24,786,046	25,841,130

About 70% (31 December 2021: about 68%) of “Neither past due nor impaired loans and advances and receivables” were property mortgage loans and hire purchase loans secured by properties, taxi licences, public light bus licences and vehicles.

NOTES TO INTERIM FINANCIAL STATEMENTS

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2022 (Unaudited)		31 December 2021 (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	78,369	0.32	53,068	0.21
One year or less but over six months	37,628	0.15	23,774	0.09
Over one year	87,002	0.35	118,045	0.46
Loans and advances overdue for more than three months	202,999	0.82	194,887	0.76
Rescheduled loans and advances overdue for three months or less	28,160	0.12	28,165	0.11
Impaired loans and advances overdue for three months or less	32,252	0.13	11,329	0.04
Total overdue and impaired loans and advances	263,411	1.07	234,381	0.91

NOTES TO INTERIM FINANCIAL STATEMENTS

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	980	471
One year or less but over six months	1,620	1,158
Over one year	9,693	11,792
Trade bills, accrued interest and other receivables overdue for more than three months	12,293	13,421
Impaired trade bills, accrued interest and other receivables overdue for three months or less	211	66
Total overdue and impaired trade bills, accrued interest and other receivables	12,504	13,487

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.

NOTES TO INTERIM FINANCIAL STATEMENTS

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2022 (Unaudited)			31 December 2021 (Audited)		
	Mainland			Mainland		
	Hong Kong HK\$'000	China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	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	<u>132,978</u>	<u>82,314</u>	<u>215,292</u>	95,086	113,222	208,308
Impairment allowances specifically assessed	<u>51,874</u>	<u>9,070</u>	<u>60,944</u>	40,335	12,207	52,542
Current market value and fair value of collateral			<u>245,764</u>			<u>259,176</u>
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	<u>191,178</u>	<u>84,737</u>	<u>275,915</u>	133,010	114,858	247,868
Impairment allowances specifically assessed	<u>64,850</u>	<u>9,070</u>	<u>73,920</u>	53,414	12,207	65,621
Current market value and fair value of collateral			<u>318,974</u>			<u>278,001</u>

Over 90% (31 December 2021: 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.

NOTES TO INTERIM FINANCIAL STATEMENTS

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 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	<u>245,764</u>	<u>259,176</u>
Covered portion of overdue loans and advances	<u>143,484</u>	<u>147,671</u>
Uncovered portion of overdue loans and advances	<u>59,515</u>	<u>47,216</u>

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 2022, the total value of repossessed assets of the Group amounted to HK\$34,735,000 (31 December 2021: HK\$34,145,000).

NOTES TO INTERIM FINANCIAL STATEMENTS

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2022 (Unaudited)		31 December 2021 (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	498,335	2.02	556,692	2.16
Trade bills, accrued interest and other receivables overdue for three months or less	2,871		3,333	

NOTES TO INTERIM FINANCIAL STATEMENTS

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 2022 (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 2022	25,342,384	250,878	247,868	25,841,130
New loans/financing originated	3,552,797	700	799	3,554,296
Loans/financing derecognised or repaid during the period (other than write-offs)	(4,400,887)	(48,573)	(58,839)	(4,508,299)
Transfer to 12-month expected credit loss (Stage 1)	77,763	(69,338)	(8,425)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(135,125)	139,231	(4,106)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(132,015)	(67,684)	199,699	-
Total transfer between stages	(189,377)	2,209	187,168	-
Write-offs	-	-	(101,081)	(101,081)
As at 30 June 2022	<u>24,304,917</u>	<u>205,214</u>	<u>275,915</u>	<u>24,786,046</u>
Arising from:				
Loans and advances	24,239,810	203,572	263,411	24,706,793
Trade bills, accrued interest and other receivables	<u>65,107</u>	<u>1,642</u>	<u>12,504</u>	<u>79,253</u>
	<u>24,304,917</u>	<u>205,214</u>	<u>275,915</u>	<u>24,786,046</u>

The amount outstanding on financial assets that were written off during the period and are still subject to enforcement action amounted to HK\$78,941,000.

NOTES TO INTERIM FINANCIAL STATEMENTS

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2021 (Audited)			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
Gross loans and advances and receivables as at 1 January 2021	25,419,405	267,868	219,814	25,907,087
New loans/financing originated	6,980,773	1,900	4,132	6,986,805
Loans/financing derecognised or repaid during the year (other than write-offs)	(6,762,196)	(40,313)	(50,877)	(6,853,386)
Transfer to 12-month expected credit loss (Stage 1)	105,536	(90,293)	(15,243)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(190,506)	192,228	(1,722)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(210,628)	(80,512)	291,140	-
Total transfer between stages	(295,598)	21,423	274,175	-
Write-offs	-	-	(199,376)	(199,376)
As at 31 December 2021	<u>25,342,384</u>	<u>250,878</u>	<u>247,868</u>	<u>25,841,130</u>
Arising from:				
Loans and advances	25,271,368	248,788	234,381	25,754,537
Trade bills, accrued interest and other receivables	71,016	2,090	13,487	86,593
	<u>25,342,384</u>	<u>250,878</u>	<u>247,868</u>	<u>25,841,130</u>

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK\$159,889,000.

NOTES TO INTERIM FINANCIAL STATEMENTS

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 2022 (Unaudited)			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
Internal rating grades:				
Performing				
Pass	24,203,503	-	-	24,203,503
Special Mention	101,414	205,214	-	306,628
Non-performing				
Substandard	-	-	132,393	132,393
Doubtful	-	-	126,028	126,028
Loss	-	-	17,494	17,494
Total	24,304,917	205,214	275,915	24,786,046

	31 December 2021 (Audited)			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
Internal rating grades:				
Performing				
Pass	25,130,487	-	-	25,130,487
Special Mention	211,897	250,878	-	462,775
Non-performing				
Substandard	-	-	85,574	85,574
Doubtful	-	-	145,440	145,440
Loss	-	-	16,854	16,854
Total	25,342,384	250,878	247,868	25,841,130

NOTES TO INTERIM FINANCIAL STATEMENTS

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 2022 (Unaudited)			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
As at 1 January 2022 *	95,900	21,923	65,621	183,444
New loans/financing originated	36,008	1	215	36,224
Loans/financing derecognised or repaid during the period (other than write-offs)	(42,797)	(3,082)	(51,469)	(97,348)
Transfer to 12-month expected credit loss (Stage 1)	2,151	(640)	(1,511)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(2,311)	2,311	-	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(3,126)	(16,370)	19,496	-
Total transfer between stages	(3,286)	(14,699)	17,985	-
Impact on period end expected credit loss of exposures transferred between stages during the period	(974)	29,288	84,096	112,410
Movements due to changes in credit risk	935	98	9,446	10,479
Recoveries	-	-	49,107	49,107
Write-offs	-	-	(101,081)	(101,081)
As at 30 June 2022	85,786	33,529	73,920	193,235
Arising from:				
Loans and advances	84,606	33,457	71,971	190,034
Trade bills, accrued interest and other receivables	1,180	72	1,949	3,201
	85,786	33,529	73,920	193,235

* 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.

NOTES TO INTERIM FINANCIAL STATEMENTS

16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2021 (Audited)			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
As at 1 January 2021	95,768	24,077	59,874	179,719
New loans/financing originated	53,724	-	531	54,255
Loans/financing derecognised or repaid during the year (other than write-offs)	(53,697)	(4,189)	(118,062)	(175,948)
Transfer to 12-month expected credit loss (Stage 1)	6,204	(3,346)	(2,858)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(1,642)	1,779	(137)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(5,883)	(15,362)	21,245	-
Total transfer between stages	(1,321)	(16,929)	18,250	-
Impact on year end expected credit loss of exposures transferred between stages during the year	(3,442)	18,983	168,635	184,176
Movements due to changes in credit risk	4,900	(19)	23,753	28,634
Recoveries	-	-	112,016	112,016
Write-offs	-	-	(199,376)	(199,376)
As at 31 December 2021	95,932	21,923	65,621	183,476
Arising from:				
Loans and advances	94,577	21,910	63,624	180,111
Trade bills, accrued interest and other receivables	1,323	13	1,997	3,333
Loan commitments	30	-	-	30
Financial guarantees and letters of credit	2	-	-	2
	95,932	21,923	65,621	183,476

NOTES TO 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:

	30 June 2022 (Unaudited) Undiscounted lease payments HK\$'000	31 December 2021 (Audited) (Audited) HK\$'000	30 June 2022 (Unaudited) Net investment in finance leases HK\$'000	31 December 2021 (Audited) (Audited) HK\$'000
Amounts receivable under finance leases:				
Within one year	399,744	406,350	260,626	266,342
Over one year but within two years	343,617	348,885	224,844	229,645
Over two years but within three years	287,589	298,033	176,678	186,761
Over three years but within four years	249,424	256,102	143,903	150,386
Over four years but within five years	226,244	229,673	124,608	127,888
Over five years	5,155,783	5,232,762	3,944,708	4,014,407
	6,662,401	6,771,805	4,875,367	4,975,429
Less: Unearned finance income	(1,787,034)	(1,796,376)		
Net investment in finance leases	4,875,367	4,975,429		

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.

NOTES TO INTERIM FINANCIAL STATEMENTS

17. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Unlisted equity investments in corporate entity, at fair value:		
At the beginning and the end of the period/year	<u>6,804</u>	<u>6,804</u>

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 (2021: HK\$35,000) from the above investments.

NOTES TO INTERIM FINANCIAL STATEMENTS

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

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Certificates of deposit held	3,051,509	3,384,230
Treasury bills and government bonds (including Exchange Fund Bills)	2,188,949	2,071,457
Other debt securities	1,371,448	1,024,028
Gross held-to-collect debt securities at amortised cost	6,611,906	6,479,715
Less: Impairment allowances collectively assessed		
As at 1 January 2022 and 2021	(649)	(674)
Credit loss expenses (charged)/released to the consolidated income statement during the period/year	(13)	25
	(662)	(649)
	6,611,244	6,479,066
Listed or unlisted:		
- Listed in Hong Kong	1,284,793	1,024,776
- Listed outside Hong Kong	157,179	107,590
- Unlisted	5,169,934	5,347,349
	6,611,906	6,479,715
Analysed by types of issuers:		
- Central governments	2,188,949	2,071,457
- Public sector entities	499,737	500,000
- Corporates	134,067	31,484
- Banks and other financial institutions	3,789,153	3,876,774
	6,611,906	6,479,715

There were no impairment allowances specifically assessed made against held-to-collect debt securities at amortised cost as at 30 June 2022 and 31 December 2021.

There were neither impaired nor overdue held-to-collect debt securities at amortised cost as at 30 June 2022 and 31 December 2021.

Over 90% (31 December 2021: over 90%) of held-to-collect debt securities at amortised cost were rated with a grading of A3 or above based on the credit rating of Moody's.

NOTES TO INTERIM FINANCIAL STATEMENTS

19. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Interest receivable from financial institutions	19,303	15,783
Other debtors, deposits and prepayments	525,886	181,831
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	-	40,465
	545,189	238,079

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

Other liabilities

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Interest payable	33,485	26,011
Creditors, accruals and other payables *	210,848	261,082
Net amount of accounts payable to HKSCC	288,174	13,781
	532,507	300,874

* The balance also includes the impairment allowance of HK\$18,000 on off-balance sheet credit exposures, including loan commitments and financial guarantees and letters of credit, as at 30 June 2022.

NOTES TO INTERIM FINANCIAL STATEMENTS

20. INTANGIBLE ASSETS

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Cost:		
At the beginning and the end of the period/year	<u>1,923</u>	<u>1,923</u>
Accumulated impairment:		
At the beginning and the end of the period/year	<u>1,205</u>	<u>1,205</u>
Net carrying amount:		
At the beginning and the end of the period/year	<u>718</u>	<u>718</u>

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 2021: five units) of Stock Exchange Trading Right and one unit (31 December 2021: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

NOTES TO INTERIM FINANCIAL STATEMENTS

21. PROPERTY AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvement, furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
Cost:			
As at 1 January 2021	22,265	394,246	416,511
Additions	-	28,716	28,716
Disposals/write-off	-	(5,038)	(5,038)
As at 31 December 2021 and 1 January 2022 (Audited)	22,265	417,924	440,189
Additions	772	14,706	15,478
Disposals/write-off	-	(16,203)	(16,203)
As at 30 June 2022 (Unaudited)	23,037	416,427	439,464
Accumulated depreciation:			
As at 1 January 2021	8,623	259,159	267,782
Provided during the year	480	31,264	31,744
Disposals/write-off	-	(5,026)	(5,026)
As at 31 December 2021 and 1 January 2022 (Audited)	9,103	285,397	294,500
Provided during the period	249	15,831	16,080
Disposals/write-off	-	(16,175)	(16,175)
As at 30 June 2022 (Unaudited)	9,352	285,053	294,405
Net carrying amount:			
As at 30 June 2022 (Unaudited)	13,685	131,374	145,059
As at 31 December 2021 (Audited)	13,162	132,527	145,689

There were no impairment allowances made against the above items of property and equipment as at 30 June 2022 and 31 December 2021. There were no movements in impairment allowances for the period ended 30 June 2022 and for the year ended 31 December 2021.

NOTES TO INTERIM FINANCIAL STATEMENTS

22. LAND HELD UNDER FINANCE LEASES

	HK\$'000
Cost:	
As at 1 January 2021, 31 December 2021 and 1 January 2022 (Audited)	231,594
Additions	<u>70,822</u>
As at 30 June 2022 (Unaudited)	<u>302,416</u>
Accumulated depreciation and impairment:	
As at 1 January 2021	60,511
Depreciation provided during the year	<u>3,734</u>
As at 31 December 2021 and 1 January 2022 (Audited)	64,245
Depreciation provided during the period	<u>2,646</u>
As at 30 June 2022 (Unaudited)	<u>66,891</u>
Net carrying amount:	
As at 30 June 2022 (Unaudited)	<u>235,525</u>
As at 31 December 2021 (Audited)	<u>167,349</u>

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

NOTES TO INTERIM FINANCIAL STATEMENTS

23. INVESTMENT PROPERTIES

	HK\$'000
At valuation:	
As at 1 January 2021	97,315
Changes in fair value recognised in the consolidated income statement	<u>2,447</u>
As at 31 December 2021 and 1 January 2022 (Audited)	99,762
Changes in fair value recognised in the consolidated income statement	<u>(710)</u>
As at 30 June 2022 (Unaudited)	<u>99,052</u>

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 2021: 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 2022, 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.

NOTES TO INTERIM FINANCIAL STATEMENTS

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 2022 (Unaudited)		31 December 2021 (Audited)	
	Range HK\$	Weighted average HK\$	Range HK\$	Weighted average HK\$
Price per square metre	80,000 to 516,000	233,000	80,000 to 521,000	235,000

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 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Demand deposits and current accounts	4,925,549	4,670,956
Savings deposits	7,691,129	8,114,462
Time, call and notice deposits	19,219,541	19,396,092
	31,836,219	32,181,510

25. SHARE CAPITAL

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Issued and fully paid:		
14,816,000 (2021: 14,816,000) ordinary shares	2,854,045	2,854,045

NOTES TO INTERIM FINANCIAL STATEMENTS

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 2022 (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	23,100	23,100	18,415	-	-
Transaction-related contingencies	3,852	1,926	816	-	-
Trade-related contingencies	3,243	649	465	-	-
Forward forward deposits placed	140,000	140,000	28,000	-	-
Forward asset purchases	-	-	-	-	-
	<u>170,195</u>	<u>165,675</u>	<u>47,696</u>	-	-
Derivatives held for trading:					
Foreign exchange rate contracts	660,235	10,102	2,020	1,660	2,711
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	<u>2,276,644</u>	-	-	-	-
	<u>3,262,914</u>	<u>253,697</u>	<u>127,636</u>	<u>1,660</u>	<u>2,711</u>
				30 June 2022 (Unaudited) Contractual amount HK\$'000	
Capital commitments contracted for, but not provided in the consolidated statement of financial position				<u>28,250</u>	

NOTES TO INTERIM FINANCIAL STATEMENTS

26. OFF-BALANCE SHEET EXPOSURE (Continued)

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

	31 December 2021				
	(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	23,011	23,011	18,365	-	-
Transaction-related contingencies	4,002	2,001	816	-	-
Trade-related contingencies	11,601	2,320	2,223	-	-
Forward forward deposits placed	272,874	272,874	54,575	-	-
Forward asset purchases	-	-	-	-	-
	311,488	300,206	75,979	-	-
Derivatives held for trading:					
Foreign exchange rate contracts	934,327	15,253	3,051	1,551	6,748
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	77,920	38,960	38,960	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,256,137	-	-	-	-
	3,579,872	354,419	117,990	1,551	6,748
				31 December 2021 (Audited) Contractual amount HK\$'000	
Capital commitments contracted for, but not provided in the consolidated statement of financial position					8,347

NOTES TO INTERIM FINANCIAL STATEMENTS

26. OFF-BALANCE SHEET EXPOSURE (Continued)

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

As at 30 June 2022 and 31 December 2021, 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\$18,000 and HK\$32,000 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 2022 and 31 December 2021, 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.

NOTES TO INTERIM FINANCIAL STATEMENTS

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 3 years.

As at 30 June 2022 and 31 December 2021, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Within one year	2,091	2,589
Over one year but within two years	787	653
Over two years but within three years	635	456
Over three years but within four years	-	228
	3,513	3,926

(b) As lessee

The Group has entered into certain future lease arrangements with landlords, and the terms of the leases range from 2 to 3 years. As at 30 June 2022 and 31 December 2021, the Group had total future lease payments for leases committed but not yet commenced falling due as follows:

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Within one year	1,131	4,331
In the second to fifth years, inclusive	4,833	8,074
	5,964	12,405

NOTES TO INTERIM FINANCIAL STATEMENTS

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial assets and financial liabilities 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 2022 (Unaudited)			Total
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	HK\$'000
Financial assets:				
Derivative financial instruments	-	1,660	-	1,660
Equity investments at fair value through other comprehensive income	-	-	6,804	6,804
	-	1,660	6,804	8,464
Financial liabilities:				
Derivative financial instruments	-	2,711	-	2,711

NOTES TO INTERIM FINANCIAL STATEMENTS

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	31 December 2021 (Audited)			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets:				
Derivative financial instruments	-	1,551	-	1,551
Equity investments at fair value through other comprehensive income	-	-	6,804	6,804
	-	1,551	6,804	8,355
Financial liabilities:				
Derivative financial instruments	-	6,748	-	6,748

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 2022 and 31 December 2021, 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 2022 and the year ended 31 December 2021, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the period ended 30 June 2022 and the year ended 31 December 2021, 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 2022 and the year ended 31 December 2021.

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.

NOTES TO INTERIM FINANCIAL STATEMENTS

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 2022 (Unaudited)							Total HK\$'000
	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	
Financial assets:								
Gross cash and short term placements	1,246,248	3,094,784	-	-	-	-	-	4,341,032
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	2,030,645	580,492	-	-	-	2,611,137
Gross loans and advances and receivables	422,524	2,193,629	1,051,379	2,048,720	5,917,245	12,855,847	296,702	24,786,046
Equity investments at fair value through other comprehensive income	-	-	-	-	-	-	6,804	6,804
Gross held-to-collect debt securities at amortised cost	-	317,434	1,137,226	3,895,507	1,261,739	-	-	6,611,906
Other assets	10	339,983	5,974	5,531	3,649	-	190,042	545,189
Gross foreign exchange contracts	-	594,761	65,474	-	-	-	-	660,235
Total financial assets	1,668,782	6,540,591	4,290,698	6,530,250	7,182,633	12,855,847	493,548	39,562,349
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	50,342	230,537	90,000	-	-	-	-	370,879
Customer deposits at amortised cost	12,668,410	6,351,869	8,817,375	3,994,963	3,602	-	-	31,836,219
Lease liabilities	-	7,433	14,635	56,676	72,764	10,233	-	161,741
Other liabilities	1,534	365,266	12,306	8,363	84	-	144,954	532,507
Gross foreign exchange contracts	-	593,848	67,438	-	-	-	-	661,286
Total financial liabilities	12,720,286	7,548,953	9,001,754	4,060,002	76,450	10,233	144,954	33,562,632
Net liquidity gap	(11,051,504)	(1,008,362)	(4,711,056)	2,470,248	7,106,183	12,845,614	348,594	5,999,717

NOTES TO INTERIM FINANCIAL STATEMENTS

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

	31 December 2021 (Audited)							
	Repayable on demand	Up to 1 month	Over	Over	Over	Over 5 years	Repayable within an indefinite period	Total
			1 month but not more than 3 months	3 months but not more than 12 months	1 year but not more than 5 years			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets:								
Gross cash and short term placements	1,041,688	3,278,838	-	-	-	-	-	4,320,526
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	1,614,325	676,015	-	-	-	2,290,340
Gross loans and advances and receivables	573,800	1,678,083	1,174,266	2,597,780	6,135,419	13,419,199	262,583	25,841,130
Equity investments at fair value through other comprehensive income	-	-	-	-	-	-	6,804	6,804
Gross held-to-collect debt securities at amortised cost	-	281,031	1,340,646	3,611,281	1,246,757	-	-	6,479,715
Other assets	37	112,345	6,314	5,152	2,825	-	111,406	238,079
Gross foreign exchange contracts	-	589,682	344,645	-	-	-	-	934,327
Total financial assets	1,615,525	5,939,979	4,480,196	6,890,228	7,385,001	13,419,199	380,793	40,110,921
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	86,562	239,076	90,000	50,000	-	-	-	465,638
Customer deposits at amortised cost	12,832,309	5,854,040	10,289,052	3,198,869	7,240	-	-	32,181,510
Lease liabilities	-	7,286	14,174	58,778	85,808	12,815	-	178,861
Other liabilities	1,404	127,741	11,363	4,519	192	-	155,655	300,874
Gross foreign exchange contracts	-	591,530	347,994	-	-	-	-	939,524
Total financial liabilities	12,920,275	6,819,673	10,752,583	3,312,166	93,240	12,815	155,655	34,066,407
Net liquidity gap	(11,304,750)	(879,694)	(6,272,387)	3,578,062	7,291,761	13,406,384	225,138	6,044,514

NOTES TO INTERIM FINANCIAL STATEMENTS

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 and cyber security risk. The respective Boards of Directors (the "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"), 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 and cyber security 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.

NOTES TO INTERIM FINANCIAL STATEMENTS

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.

NOTES TO INTERIM FINANCIAL STATEMENTS

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 2022, if RMB had strengthened or weakened by 100 basis points against HKD with all other variables held constant, the Group's equity would have increased or decreased by HK\$12 million (31 December 2021: HK\$12 million) mainly as a result of foreign exchange impact arising from the net structural position of RMB denominated operating capital.

NOTES TO INTERIM FINANCIAL STATEMENTS

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 2022 (Unaudited)					
	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net (short)/long position	Structural assets
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
RMB	537	568	-	2	(33)	1,170
Others	6,611	6,342	352	620	1	-
	7,148	6,910	352	622	(32)	1,170

	31 December 2021 (Audited)					
	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net (short)/long position	Structural assets
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
RMB	636	671	-	3	(38)	1,227
Others	6,933	6,539	537	929	2	-
	7,569	7,210	537	932	(36)	1,227

(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.

NOTES TO INTERIM FINANCIAL STATEMENTS

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.

NOTES TO INTERIM FINANCIAL STATEMENTS

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.

NOTES TO INTERIM FINANCIAL STATEMENTS

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 scenario arising from off-balance sheet exposures and contingent funding obligations. In baseline scenario, expected cash outflow is derived from the aforesaid exposures and obligations including potential drawdowns of unused committed facilities; trade related contingencies; issued letters of credit and financial guarantee unrelated to trade related contingencies; and uncommitted facilities and other contingent obligations with regard to not only the contractual terms in agreements with customers but also the manner of past months' utilisation and genuine drawdowns of the credit facilities; customer relationships and reputational risk perspectives. In stressed scenario, the utilisation and drawdowns of credit facilities are expected to escalate to some extent.

NOTES TO INTERIM FINANCIAL STATEMENTS

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.

NOTES TO INTERIM FINANCIAL STATEMENTS

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	
	2022	2021
	(Unaudited)	(Unaudited)
Liquidity Maintenance Ratio		
- Public Bank (Hong Kong) Group	50.8%	53.3%
- The Bank	49.3%	51.8%
- Public Finance	84.2%	85.0%
Core Funding Ratio		
- Public Bank (Hong Kong) Group	146.6%	143.2%
- The Bank	145.0%	140.8%

NOTES TO INTERIM FINANCIAL STATEMENTS

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.

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 China Banking and Insurance Regulatory Commission, 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 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 2022, the liquidity ratios in RMB and foreign currencies of Mainland China Office were 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 the 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.

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

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

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

Capital adequacy ratios

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

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Consolidated CET1 Capital Ratio	23.3%	22.6%
Consolidated Tier 1 Capital Ratio	23.3%	22.6%
Consolidated Total Capital Ratio	24.0%	23.3%

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

NOTES TO INTERIM FINANCIAL STATEMENTS

30. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Capital disclosures

The components of capital base include the following items:

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
CET1 capital instruments	2,854,045	2,854,045
Retained earnings	3,483,703	3,435,033
Disclosed reserves	87,342	138,800
CET1 capital before deduction	6,425,090	6,427,878
Deduct:		
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	(57,761)	(58,471)
Regulatory reserve for general banking risk	(46,220)	(54,812)
Goodwill	(242,342)	(242,342)
Deferred tax assets in excess of deferred tax liabilities	(20,204)	(15,030)
CET1 capital after deduction	6,058,563	6,057,223
Additional Tier 1 capital	-	-
Tier 1 capital after deductions	6,058,563	6,057,223
Reserve attributable to fair value gains	25,992	26,312
Regulatory reserve for general banking risk	46,220	54,812
Collective provisions	120,674	119,146
	166,894	173,958
Tier 2 capital	192,886	200,270
Capital base	6,251,449	6,257,493
Total risk-weighted assets	26,021,165	26,825,953

NOTES TO INTERIM FINANCIAL STATEMENTS

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 2022, 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 table illustrates the geographical breakdown of risk-weighted amounts (“RWA”) in relation to private sector credit exposures:

Jurisdiction (“J”)	Applicable JCCyB ratio in effect %	30 June 2022 (Unaudited)		CCyB ratio %	CCyB amount HK\$’000
		Total RWA used in computation of CCyB ratio HK\$’000			
1. Hong Kong	1.000	16,876,011			
2. Mainland China	-	1,434,538			
Total		18,310,549		0.922	168,760

Jurisdiction (“J”)	Applicable JCCyB ratio in effect %	31 December 2021 (Audited)		CCyB ratio %	CCyB amount HK\$’000
		Total RWA used in computation of CCyB ratio HK\$’000			
1. Hong Kong	1.000	17,375,997			
2. Mainland China	-	1,607,495			
Total		18,983,492		0.915	173,760

NOTES TO INTERIM FINANCIAL STATEMENTS

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 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Consolidated Tier 1 Capital	6,058,563	6,057,223
Consolidated Exposure Measure for Leverage Ratio	39,699,240	40,168,936
Consolidated Leverage Ratio	15.3%	15.1%

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 2022 to be published in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 September 2022.

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.

NOTES TO 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 2022 to be published in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 September 2022.

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:

		30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
	Note		
CET1 capital instruments issued by the Bank			
Ordinary shares:			
14,816,000 issued and fully paid ordinary shares	25	<u>2,854,045</u>	<u>2,854,045</u>

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 2022 in the Bank's website at www.publicbank.com.hk under "Regulatory Disclosures" section on or before 30 September 2022.

31. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current period.

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 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	586,856	167	63	82	-	575,029	98.0	10,549	10,549
Building and construction, property development and investment									
Property development	242,795	24	-	12	-	242,779	100.0	-	-
Property investment	4,544,408	451	3	4	-	4,544,408	100.0	31,046	18,817
Civil engineering works	162,657	123	-	38	-	75,082	46.2	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	16,533	2	-	-	-	16,533	100.0	-	-
Information technology	860	-	-	-	-	860	100.0	-	-
Wholesale and retail trade	249,431	541	-	167	-	212,505	85.2	-	-
Transport and transport equipment	4,830,588	24,539	24,775	18,414	-	4,415,538	91.4	36,486	31,378
Hotels, boarding houses and catering	55,145	6	-	-	-	55,145	100.0	-	-
Financial concerns	179,448	18	-	9	-	178,738	99.6	-	-
Stockbrokers									
Margin lending	213,100	21	-	10	-	212,467	99.7	-	-
Others	80,000	8	-	-	-	80,000	100.0	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	13,472	1	-	-	-	13,472	100.0	-	-
Others	567,158	57	-	-	-	567,156	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									
	18,659	2	-	-	-	18,659	100.0	-	-
Loans for the purchase of other residential properties									
	7,277,156	724	4	8	-	7,277,156	100.0	35,017	25,206
Loans for credit card advances									
	-	-	-	-	-	-	-	-	-
Loans for other business purposes									
	5,418	1	-	-	-	5,415	99.9	-	-
Loans for other private purposes									
	3,286,937	90,548	38,855	141,269	100,687	161,419	4.9	67,046	38,637
Trade finance	391,625	232	15	121	-	372,798	95.2	2,443	-
Other loans and advances	77,708	28	-	-	-	76,145	98.0	4,132	4,132
Sub-total	22,799,954	117,493	63,715	160,134	100,687	19,101,304	83.8	186,719	128,719
Loans and advances for use outside Hong Kong									
	1,906,839	570	8,256	643	394	1,898,852	99.6	76,692	74,280
Total loans and advances (excluding trade bills and other receivables)									
	24,706,793	118,063	71,971	160,777	101,081	21,000,156	85.0	263,411	202,999

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

	31 December 2021									
	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	605,930	205	-	97	-	595,017	98.2	-	-	
Building and construction, property development and investment										
Property development	120,322	12	-	12	-	120,322	100.0	-	-	
Property investment	5,078,108	508	-	1	-	5,078,108	100.0	-	-	
Civil engineering works	166,112	130	-	50	-	78,719	47.4	-	-	
Electricity and gas	-	-	-	-	-	-	-	-	-	
Recreational activities	17,197	2	-	-	-	17,188	99.9	-	-	
Information technology	883	-	-	-	-	883	100.0	-	-	
Wholesale and retail trade	265,877	622	-	1,342	940	227,029	85.4	-	-	
Transport and transport equipment	4,926,546	11,035	20,103	11,104	-	4,557,222	92.5	30,852	27,230	
Hotels, boarding houses and catering	71,562	7	-	-	-	71,562	100.0	-	-	
Financial concerns	91,917	9	-	-	-	91,404	99.4	-	-	
Stockbrokers										
Margin lending	110,555	11	-	8	-	109,663	99.2	-	-	
Others	114,000	11	-	-	-	114,000	100.0	-	-	
Non-stockbroking companies and individuals for the purchase of shares										
Margin lending	11,255	1	-	-	-	11,255	100.0	-	-	
Others	565,080	58	-	2	-	565,080	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										
	21,659	2	-	-	-	21,659	100.0	-	-	
Loans for the purchase of other residential properties										
	7,327,973	729	4	25	-	7,327,973	100.0	40,514	34,938	
Loans for credit card advances										
	-	-	-	-	38	-	-	-	-	
Loans for other business purposes										
	6,281	1	-	-	-	6,281	100.0	-	-	
Loans for other private purposes										
	3,481,121	102,213	32,616	250,794	197,686	186,167	5.3	58,667	30,000	
Trade finance	605,806	126	-	20	-	595,836	98.4	-	-	
Other loans and advances	79,714	35	-	-	-	77,697	97.5	-	-	
Sub-total	23,667,898	115,717	52,723	263,455	198,664	19,853,065	83.9	130,033	92,168	
Loans and advances for use outside Hong Kong	2,086,639	770	10,901	4,672	712	2,058,651	98.7	104,348	102,719	
Total loans and advances (excluding trade bills and other receivables)	25,754,537	116,487	63,624	268,127	199,376	21,911,716	85.1	234,381	194,887	

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 2022				Total HK\$'million
	Banks HK\$'million	Official sector HK\$'million	Non-bank financial institutions HK\$'million	Non- financial private sector HK\$'million	
1. Developed countries	2,782	8	-	236	3,026
2. Offshore centres, of which	1,151	5	109	2,196	3,461
– Hong Kong	829	4	29	1,504	2,366
3. Developing Asia-Pacific, of which	4,851	119	-	2,006	6,976
– China	3,268	119	-	1,961	5,348

	31 December 2021				Total HK\$'million
	Banks HK\$'million	Official sector HK\$'million	Non-bank financial institutions HK\$'million	Non- financial private sector HK\$'million	
1. Developed countries	2,864	8	-	187	3,059
2. Offshore centres, of which	1,459	3	206	2,254	3,922
– Hong Kong	1,083	3	126	1,689	2,901
3. Developing Asia-Pacific, of which	4,311	103	-	2,105	6,519
– China	2,709	102	-	2,060	4,871

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

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

Types of counterparties	30 June 2022		Total
	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	
Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	153	-	153
People's Republic of China ("PRC") nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	100	-	100
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	1	-	1
Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	1,621	-	1,621
Total	1,875	-	1,875
Total assets after provision	35,619		
On-balance sheet exposures as percentage of total assets	5.26%		

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

Types of counterparties	31 December 2021		Total HK\$'million
	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	
Central government, central government-owned entities and their subsidiaries and JVs	205	-	205
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	122	-	122
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	1,737	-	1,737
Total	2,066	-	2,066
Total assets after provision	<u>35,772</u>		
On-balance sheet exposures as percentage of total assets	<u>5.78%</u>		

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 2022, the Group recorded a profit after tax of HK\$185.7 million, representing a decrease of HK\$52.0 million or 21.9% as compared to the profit after tax of HK\$237.7 million for the corresponding period in 2021. The decrease in earnings of the Group was mainly attributed to the decrease in net interest income and other operating income for the period under review.

During the period under review, the Group's interest income decreased by HK\$35.5 million or 5.0% to HK\$679.4 million mainly due to lower average loan portfolio balance with subdued loan demand under the fifth wave of COVID-19 pandemic in Hong Kong, whilst interest expense decreased by HK\$1.8 million or 2.2% to HK\$78.4 million mainly due to the lower average fixed deposit balance with limited funding need for supporting subdued lending activities. Consequently, the Group's net interest income decreased by HK\$33.7 million or 5.3% to HK\$600.9 million from HK\$634.6 million in the corresponding period in 2021. Non-interest income of the Group also decreased by HK\$23.2 million or 18.3% to HK\$103.6 million, mainly due to lower fees and commission income from wealth management services, stockbroking and securities management and lesser gain from dealing in foreign currencies as affected by the volatile financial market with reduced stock market turnover in the period under review.

The Group's operating expenses decreased by HK\$9.3 million or 2.2% to HK\$415.3 million mainly due to lower staff expenses in the period under review.

Fair value of investment properties decreased by HK\$0.7 million during the period under review as compared to a revaluation gain of HK\$1.0 million in the corresponding period of last year.

Overall impaired loans to total loans ratio of the Group increased by 0.16% to 1.07% as at 30 June 2022 from 0.91% as at 31 December 2021 amidst the weakened economy from the fifth wave of pandemic in Hong Kong. Credit loss expenses increased by HK\$13.3 million or 27.4% to HK\$61.8 million mainly due to the escalation in credit charges for hire purchase loans driven by the increased loan delinquency coupled with reduced transport licence value during the period under review.

The Group's total loans and advances (including trade bills) decreased by HK\$1.05 billion or 4.1% to HK\$24.72 billion as at 30 June 2022 from HK\$25.77 billion as at 31 December 2021. The Group's deposits from customers decreased by HK\$345.3 million or 1.1% to HK\$31.84 billion as at 30 June 2022 as compared to the position of 31 December 2021. Total assets of the Group stood at HK\$39.63 billion as at 30 June 2022.

The Group will continue to focus on expanding its retail and commercial banking businesses and its consumer financing business, as well as its wealth management services, stockbroking and securities management fee-based businesses. 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.

By Order of the Board
Public Bank (Hong Kong) Limited
Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman

15 July 2022