

OCBC Bank (Hong Kong) Limited

2023 Interim Report



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Unaudited Consolidated Statement of Profit or Loss

(Expressed in millions of Hong Kong dollars unless otherwise stated)

| | Notes | Six months ended 30th June, 2023 | Six months ended 30th June, 2022 |
|---|-------|-------------------------------------|-------------------------------------|
| Interest income calculated using the effective interest method | 4(a) | 6,237 | 3,300 |
| Other interest income | 4(a) | 732 | 127 |
| Interest expense | 4(b) | (3,770) | (1,084) |
| Net interest income | | 3,199 | 2,343 |
| Fees and commission income | | 723 | 740 |
| Fees and commission expense | | (70) | (61) |
| Net fees and commissions income | 4(c) | 653 | 679 |
| Dividends | 4(d) | 22 | 10 |
| Rental income | | 2 | 2 |
| Other income | 4(e) | 319 | 434 |
| Other operating income | | 996 | 1,125 |
| Operating income | | 4,195 | 3,468 |
| Operating expenses | 4(f) | (1,999) | (1,843) |
| Operating profit before expected credit loss | | 2,196 | 1,625 |
| Change in expected credit loss and other credit impairment charges | | 136 | (352) |
| Operating profit after expected credit loss | | 2,332 | 1,273 |
| Share of net gains of associated companies | | 39 | 67 |
| Profit before taxation | | 2,371 | 1,340 |
| Taxation | 5 | (427) | (218) |
| Profit for the period attributable to equity shareholder of the Bank | | 1,944 | 1,122 |

Unaudited Consolidated Statement of Comprehensive Income

(Expressed in millions of Hong Kong dollars unless otherwise stated)

| | Notes | Six months ended 30th June, 2023 | Six months ended 30th June, 2022 |
|---|-------|-------------------------------------|-------------------------------------|
| Profit for the period | | 1,944 | 1,122 |
| Other comprehensive income for the period (after tax and reclassification adjustments) | | | |
| Items that will not be reclassified to profit or loss | | | |
| – Surplus on revaluation of bank premises | 11 | 63 | 14 |
| – Income tax related to the above | | (14) | (6) |
| – Share of surplus on revaluation of bank premises of associated companies | | 4 | – |
| | | 53 | 8 |
| – Equity securities measured at fair value through other comprehensive income | | | |
| – Fair value changes | | (372) | (261) |
| – Deferred taxes | | 22 | 16 |
| – Share of fair value changes of financial assets of associated companies | | 2 | 3 |
| | | (348) | (242) |
| | | (295) | (234) |
| Items that are or may be reclassified subsequently to profit or loss | | | |
| – Exchange adjustments on translation of financial statements of subsidiaries | | (403) | (465) |
| – Debt securities measured at fair value through other comprehensive income | | | |
| – Fair value changes | | 157 | (888) |
| – Transfer to consolidated statement of profit or loss | | | |
| – gains on disposal | | (39) | (35) |
| – expected credit loss recognised | | (4) | 5 |
| – Income tax related to the above | | (65) | 152 |
| – Share of fair value changes of financial assets of associated companies | | 118 | (106) |
| | | 167 | (872) |

Unaudited Consolidated Statement of Comprehensive Income

(Expressed in millions of Hong Kong dollars unless otherwise stated)

| | Notes | Six months ended 30th June, 2023 | Six months ended 30th June, 2022 |
|--|-------|---|-------------------------------------|
| – Cash flow hedging reserve | | | |
| – Fair value changes taken to equity | | – | 2 |
| – Unappropriated profits | | | |
| – Bank premises | | | |
| – Deferred taxes | | 15 | 11 |
| | | (221) | (1,324) |
| Other comprehensive income for the period, net of tax | | (516) | (1,558) |
| Total comprehensive income for the period attributable to equity shareholder of the Bank | | 1,428 | (436) |

Unaudited Consolidated Statement of Financial Position

(Expressed in millions of Hong Kong dollars unless otherwise stated)

| | Notes | 30th June, 2023 | 31st December, 2022 |
|--|-------|--------------------|------------------------|
| ASSETS | | | |
| Cash and balances with banks and central banks | 6 | 7,704 | 10,645 |
| Placements with banks, central banks and other financial institutions | 7 | 3,156 | 3,903 |
| Amounts due from ultimate holding company, fellow subsidiaries and fellow associates | | 10,594 | 18,324 |
| Trading assets | 21(a) | 16,882 | 9,821 |
| Advances to customers and other accounts | 8 | 202,830 | 207,605 |
| Financial assets measured at fair value through other comprehensive income | 21(a) | 82,241 | 81,814 |
| Debt securities measured at amortised cost | | 5,513 | – |
| Assets held for sale | 10 | 10 | – |
| Investments in associated companies | | 732 | 569 |
| Tangible fixed assets | 11 | | |
| – Investment properties | | 323 | 293 |
| – Other properties, plants and equipment | | 5,068 | 5,093 |
| Goodwill | | 1,306 | 1,306 |
| Current tax recoverable | | 40 | 4 |
| Deferred tax assets | | 74 | 106 |
| Total assets | | 336,473 | 339,483 |
| EQUITY AND LIABILITIES | | | |
| Deposits and balances of banks | | 9,768 | 7,412 |
| Amounts due to ultimate holding company and fellow subsidiaries | | 6,916 | 13,050 |
| Deposits from customers | 12 | 246,936 | 247,210 |
| Certificates of deposit and fixed rate note issued | 13 | 6,128 | 11,611 |
| Trading liabilities | 21(a) | 14,667 | 8,685 |
| Lease liabilities | 14 | 77 | 90 |
| Current tax payable | | 555 | 395 |
| Deferred tax liabilities | | 506 | 449 |
| Other accounts and provisions | 15 | 4,458 | 4,515 |
| Total liabilities | | 290,011 | 293,417 |
| Share capital | | 7,308 | 7,308 |
| Reserves | 16 | 36,154 | 35,758 |
| Perpetual capital securities issued | | 3,000 | 3,000 |
| Total equity | | 46,462 | 46,066 |
| Total equity and liabilities | | 336,473 | 339,483 |

Unaudited Consolidated Statement of Changes in Equity

(Expressed in millions of Hong Kong dollars unless otherwise stated)

| | Six months ended 30th June, 2023 | | | | | | At 30th June |
|---|-------------------------------------|----------------------------------|---|--|--------------------------|--|---------------|
| | At 1st January | Transfer to/(from) reserve | Coupon of perpetual capital securities | Dividends declared or approved during the period | Profit for the period | Other comprehensive income for the period | |
| Share capital | 7,308 | - | - | - | - | - | 7,308 |
| Capital reserve | 478 | 46 | - | - | - | - | 524 |
| Statutory reserve | 430 | - | - | - | - | - | 430 |
| General reserve | 1,536 | - | - | - | - | (403) | 1,133 |
| Bank premises revaluation reserve | 3,075 | (34) | - | - | - | 53 | 3,094 |
| Investment revaluation reserve (recycling) | (1,034) | - | - | - | - | 167 | (867) |
| Investment revaluation reserve (non-recycling) | 2,368 | - | - | - | - | (348) | 2,020 |
| Unappropriated profits | 28,905 | (12) | (72) | (960) | 1,944 | 15 | 29,820 |
| Perpetual capital securities | 3,000 | - | - | - | - | - | 3,000 |
| Total equity | 46,066 | - | (72) | (960) | 1,944 | (516) | 46,462 |

| | Six months ended 31st December, 2022 | | | | | | At 31st December |
|---|---|----------------------------------|---|--|--------------------------|--|---------------------|
| | At 30th June | Transfer to/(from) reserve | Coupon of perpetual capital securities | Dividends declared or approved during the period | Profit for the period | Other comprehensive income for the period | |
| Share capital | 7,308 | - | - | - | - | - | 7,308 |
| Capital reserve | 478 | - | - | - | - | - | 478 |
| Statutory reserve | 430 | - | - | - | - | - | 430 |
| General reserve | 1,983 | - | - | - | - | (447) | 1,536 |
| Bank premises revaluation reserve | 3,146 | (33) | - | - | - | (38) | 3,075 |
| Investment revaluation reserve (recycling) | (722) | - | - | - | - | (312) | (1,034) |
| Investment revaluation reserve (non-recycling) | 2,034 | - | - | - | - | 334 | 2,368 |
| Unappropriated profits | 28,212 | 33 | (72) | (700) | 1,418 | 14 | 28,905 |
| Perpetual capital securities | 3,000 | - | - | - | - | - | 3,000 |
| Total equity | 45,869 | - | (72) | (700) | 1,418 | (449) | 46,066 |

Unaudited Consolidated Statement of Changes in Equity

(Expressed in millions of Hong Kong dollars unless otherwise stated)

| | At 1st January | Transfer to/(from) reserve | Coupon of perpetual capital securities | Dividends declared or approved during the period | Profit for the period | Other comprehensive income for the period | At 30th June |
|---|-------------------|----------------------------------|---|--|--------------------------|--|-----------------|
| Share capital | 7,308 | – | – | – | – | – | 7,308 |
| Capital reserve | 483 | (5) | – | – | – | – | 478 |
| Statutory reserve | 430 | – | – | – | – | – | 430 |
| General reserve | 2,447 | – | – | – | – | (464) | 1,983 |
| Bank premises revaluation reserve | 3,169 | (31) | – | – | – | 8 | 3,146 |
| Investment revaluation reserve (recycling) | 151 | – | – | – | – | (873) | (722) |
| Investment revaluation reserve (non-recycling) | 2,276 | – | – | – | – | (242) | 2,034 |
| Cash flow hedging reserve | (2) | – | – | – | – | 2 | – |
| Unappropriated profits | 27,364 | 36 | (71) | (250) | 1,122 | 11 | 28,212 |
| Perpetual capital securities | 3,000 | – | – | – | – | – | 3,000 |
| Total equity | 46,626 | – | (71) | (250) | 1,122 | (1,558) | 45,869 |

Unaudited Consolidated Cash Flow Statement

(Expressed in millions of Hong Kong dollars unless otherwise stated)

| | Notes | Six months ended 30th June, 2023 | Six months ended 30th June, 2022 |
|--|-------|-------------------------------------|-------------------------------------|
| Net cash outflow from operating activities | 18(a) | (3,353) | (8,449) |
| Investing activities | | | |
| Purchase of financial assets measured at fair value through other comprehensive income | | (27,979) | (11,149) |
| Sale and redemption of financial assets measured at fair value through other comprehensive income | | 18,139 | 15,397 |
| Purchase of properties and equipment | | (68) | (32) |
| Sale of properties and equipment | | – | 68 |
| Net cash (outflow)/inflow from investing activities | | (9,908) | 4,284 |
| Financing activities | | | |
| Dividends paid | | (960) | (250) |
| Net proceeds from issue of fixed rate notes | | – | 879 |
| Interest paid on fixed rate note | | (52) | (30) |
| Coupon of perpetual capital securities | | (72) | (71) |
| Payment of lease liabilities | | (32) | (38) |
| Net cash (outflow)/inflow from financing activities | | (1,116) | 490 |
| Decrease in cash and cash equivalents | | (14,377) | (3,675) |
| Cash and cash equivalents at 1st January | | 30,775 | 29,024 |
| Effects of foreign exchange rate changes | | (537) | (545) |
| Cash and cash equivalents at 30th June | | 15,861 | 24,804 |
| Analysis of the balances of cash and cash equivalents | | | |
| Cash and balances with banks and central banks | | 7,508 | 9,436 |
| Placements with banks, central banks and other financial institutions with an original maturity within three months | | 2,640 | 1,666 |
| Amounts due from ultimate holding company, fellow subsidiaries and fellow associates with an original maturity within three months | | 5,063 | 10,736 |
| Treasury bills with an original maturity within three months | | 650 | 2,966 |
| | | 15,861 | 24,804 |
| Cash flows from operating activities included: | | | |
| Interest received | | 6,826 | 3,500 |
| Interest paid | | 3,087 | 952 |
| Dividend received | | 22 | 10 |

Notes to Unaudited Interim Financial Report

(Expressed in millions of Hong Kong dollars unless otherwise stated)

1. GENERAL INFORMATION

OCBC Bank (Hong Kong) Limited (formerly known as OCBC Wing Hang Bank Limited) (“the Bank”) is a licensed bank in Hong Kong. The Bank together with its subsidiaries (collectively “the Group”) provide banking, financial and other related services.

With effect from 26 June 2023, the name of the Bank was changed from OCBC Wing Hang Bank Limited to OCBC Bank (Hong Kong) Limited.

The unaudited consolidated profit for the period attributable to equity shareholders of the Group for the six months ended 30th June, 2023 was HK\$1,944 million. The results of the Group for the period ended 30th June, 2023 and the state of affairs of the Group and the Bank as at 30th June, 2023 are set out in the interim financial report on pages 2 to 44.

2. BASIS OF PREPARATION

The accounting policies and methods of computation used in the preparation of the 2023 interim consolidated financial report are consistent with those used and described in the Group’s annual audited financial report for the year ended 31st December, 2022, except for the changes in accounting policies as described in note 3.

In preparing the interim consolidated financial report for 2023, the Bank has fully complied with the disclosure standards set out in the “Banking (Disclosure) Rules” and the “Guideline on the Application of the Banking (Disclosure) Rules” issued by the Hong Kong Monetary Authority (“HKMA”).

Disclosures on capital and leverage required by the Banking (Disclosure) Rules will be disclosed by 30th September, 2023 under “Regulatory Disclosure” on the website of the Bank (www.ocbc.com.hk).

The interim consolidated financial report was approved by the Board of Directors for issue on 20th September, 2023.

The interim consolidated financial report has not been audited.

3. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants has issued a number of standards and amendments to HKFRS and HKAS that are first effective for the current accounting period of the Group.

The Group has assessed that those HKFRS’s and HKAS’s standards and amendments have no significant impact to the interim consolidated financial report:

- Insurance Contracts — HKFRS 17
- Disclosure of Accounting Policies — Amendments to HKAS 1 and HKFRS Practice Statement 2
- Definition of Accounting Estimates — Amendments to HKAS 8, and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction — Amendments to HKAS 12

Notes to Unaudited Interim Financial Report

4. OPERATING PROFIT

(a) Interest income

| | Six months ended 30th June, 2023 | Six months ended 30th June, 2022 |
|--|---|-------------------------------------|
| Interest income calculated using the effective interest method: | | |
| – financial assets not measured at fair value through profit or loss | 6,237 | 3,300 |
| Other interest income: | | |
| – trading assets | 732 | 127 |
| | 6,969 | 3,427 |
| of which: interest income from impaired financial assets | 35 | 9 |

(b) Interest expense

| | Six months ended 30th June, 2023 | Six months ended 30th June, 2022 |
|---|---|-------------------------------------|
| Interest expense including the following: | | |
| – Financial liabilities not measured at fair value through profit or loss | 3,145 | 911 |

(c) Fee and commission (net)

| | Six months ended 30th June, 2023 | Six months ended 30th June, 2022 |
|--|---|-------------------------------------|
| Fees and commission | | |
| – Credit commission and fees | 69 | 62 |
| – Credit card related fees | 63 | 47 |
| – Trade related fees | 30 | 37 |
| – Insurance commission | 72 | 68 |
| – Stockbroking fees | 42 | 57 |
| – Wealth management fees | 29 | 54 |
| – Other fees and commission income | 418 | 415 |
| – Less: Fees and commission expenses | (70) | (61) |
| | 653 | 679 |
| of which: | | |
| Net fees and commission, other than amounts included in determining the effective interest rate, arising from financial instruments that are not measured at fair value through profit or loss | | |
| – fees and commission income | 104 | 104 |

4. OPERATING PROFIT *(Continued)*

(d) Dividends

| | Six months ended 30th June, 2023 | Six months ended 30th June, 2022 |
|---|---|-------------------------------------|
| Dividend income from financial assets measured at fair value through other comprehensive income | | |
| – Unlisted financial assets | 22 | 10 |

(e) Other income

| | Six months ended 30th June, 2023 | Six months ended 30th June, 2022 |
|--|---|-------------------------------------|
| Foreign exchange * | 112 | 248 |
| Hedging activities | | |
| – Fair value hedges | | |
| – hedged items | (33) | (487) |
| – hedging instruments | 44 | 486 |
| Interest rate and other derivatives | 148 | 101 |
| Trading securities | 19 | (2) |
| Others | 1 | – |
| Net trading income | 291 | 346 |
| Gains transferred from investment revaluation reserve upon disposal | 39 | 35 |
| Disposal of financial assets measured at fair value through other comprehensive income | (52) | (6) |
| Total (losses)/gains on disposal of financial assets measured at fair value through other comprehensive income | (13) | 29 |
| Revaluation of investment properties (note 11) | 30 | (10) |
| Disposal of tangible fixed assets | (3) | 57 |
| Others | 14 | 12 |
| | 319 | 434 |

* Included net interest expense of HK\$108 million (30th June, 2022: HK\$51 million) related to cross currency funding swaps.

Notes to Unaudited Interim Financial Report

4. OPERATING PROFIT *(Continued)*

(f) Operating expenses

| | Six months ended 30th June, 2023 | Six months ended 30th June, 2022 |
|---|---|-------------------------------------|
| Staff costs (note (i)) | | |
| Salaries and other staff costs | 1,415 | 1,311 |
| Retirement benefit costs | 66 | 60 |
| Share based expenses | 17 | 17 |
| | 1,498 | 1,388 |
| Premises and equipment expenses, excluding depreciation | 135 | 121 |
| Depreciation (note 11) | 162 | 159 |
| Others | 204 | 175 |
| | 1,999 | 1,843 |

- (i) In 2022, the Group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the HKSAR Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

5. TAXATION

| | Six months ended 30th June, 2023 | Six months ended 30th June, 2022 |
|---|---|-------------------------------------|
| Current tax – Provision for Hong Kong profits tax | 235 | 166 |
| Current tax – Provision for tax outside Hong Kong | 182 | 80 |
| Deferred taxation | 10 | (28) |
| | 427 | 218 |

6. CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

| | 30th June, 2023 | 31st December, 2022 |
|---|------------------------|---------------------|
| Cash balances | 805 | 1,096 |
| Balances with central banks | 5,154 | 6,962 |
| Balances with banks | 1,745 | 2,587 |
| Expected credit loss (Stage 1) (note 9) | – | – |
| | 7,704 | 10,645 |

7. PLACEMENTS WITH BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

| | 30th June, 2023 | 31st December, 2022 |
|---|-----------------|---------------------|
| Remaining maturity | | |
| – Within 1 month | 2,640 | 3,156 |
| – Over 1 month but within 1 year | 517 | 748 |
| Expected credit loss (Stage 1) (note 9) | (1) | (1) |
| | 3,156 | 3,903 |

8. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

| | 30th June, 2023 | 31st December, 2022 |
|---|-----------------|---------------------|
| Gross advances to customers | 197,211 | 200,262 |
| Expected credit loss (Stages 1 and 2) (note 9) | (635) | (723) |
| Expected credit loss (Stage 3) (note 9) | (223) | (267) |
| Net advances to customers | 196,353 | 199,272 |
| Gross trade bills | 1,195 | 2,747 |
| Expected credit loss (Stages 1 and 2) (note 9) | (2) | (1) |
| Net trade bills | 1,193 | 2,746 |
| Advances to banks | 1,543 | 1,454 |
| Expected credit loss (Stage 1) (note 9) | – | – |
| Net advances to banks | 1,543 | 1,454 |
| Customer liability under acceptances | 449 | 856 |
| Interest receivables | 1,256 | 1,152 |
| Positive fair values of derivative financial instruments held for hedging (note 17) | 610 | 605 |
| Other accounts | 1,426 | 1,520 |
| | 202,830 | 207,605 |

Notes to Unaudited Interim Financial Report

9. EXPECTED CREDIT LOSS

(a) Reconciliation of expected credit loss

| | Six months ended 30th June, 2023 | | | |
|--|---|--------------|-------------|--------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| At 1st January | 564 | 487 | 267 | 1,318 |
| Transfers of financial assets | | | | |
| – transfers from Stage 1 to Stage 2 | (91) | 91 | – | – |
| – transfers from Stage 2 to Stage 1 | 313 | (313) | – | – |
| – transfers to Stage 3 | – | (6) | 6 | – |
| – transfers from Stage 3 | 1 | 1 | (2) | – |
| Changes in PDs/LGDs/EADs/forward-looking assumptions | (274) | 103 | – | (171) |
| New financial assets originated, repayments and further lending | 67 | (11) | (21) | 35 |
| Amounts written off | – | – | (45) | (45) |
| Recoveries of advances written off in prior years | – | – | 23 | 23 |
| Unwind of discount of expected credit losses | – | – | (5) | (5) |
| Exchange adjustments | (13) | (1) | – | (14) |
| At 30th June | 567 | 351 | 223 | 1,141 |
| Representing expected credit loss for: | | | | |
| Balances and placement with central banks | – | – | – | – |
| Balances and placement with banks | 1 | – | – | 1 |
| Advances to customers (note 8) | 325 | 310 | 223 | 858 |
| Trade bills (note 8) | 2 | – | – | 2 |
| Advances to banks (note 8) | – | – | – | – |
| Contingent liabilities and commitments to extend credit (note 15) | 228 | 34 | – | 262 |
| Debt securities measured at amortised cost | – | – | – | – |
| Financial assets measured at fair value through other comprehensive income | 11 | 7 | – | 18 |
| | 567 | 351 | 223 | 1,141 |

9. EXPECTED CREDIT LOSS *(Continued)*

(a) Reconciliation of expected credit loss *(Continued)*

| | Year ended 31st December, 2022 | | | |
|--|--------------------------------|------------|------------|--------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| At 1st January | 322 | 147 | 226 | 695 |
| Transfers of financial assets | | | | |
| – transfers from Stage 1 to Stage 2 | (83) | 83 | – | – |
| – transfers from Stage 2 to Stage 1 | 97 | (97) | – | – |
| – transfers to Stage 3 | (1) | (58) | 59 | – |
| – transfers from Stage 3 | 13 | 2 | (15) | – |
| Changes in PDs/LGDs/EADs/forward-looking assumptions | 54 | 392 | 112 | 558 |
| New financial assets originated, repayments and further lending | 179 | 28 | 19 | 226 |
| Amounts written off | – | – | (166) | (166) |
| Recoveries of advances written off in prior years | – | – | 47 | 47 |
| Unwind of discount of expected credit losses | – | – | (11) | (11) |
| Exchange adjustments | (17) | (10) | (4) | (31) |
| At 31st December | 564 | 487 | 267 | 1,318 |
| Representing expected credit loss for: | | | | |
| Balances and placement with central banks | – | – | – | – |
| Balances and placement with banks | 1 | – | – | 1 |
| Advances to customers (note 8) | 343 | 380 | 267 | 990 |
| Trade bills (note 8) | 1 | – | – | 1 |
| Advances to banks (note 8) | – | – | – | – |
| Contingent liabilities and commitments to extend credit (note 15) | 207 | 98 | – | 305 |
| Debt securities measured at amortised cost | – | – | – | – |
| Financial assets measured at fair value through other comprehensive income | 12 | 9 | – | 21 |
| | 564 | 487 | 267 | 1,318 |

Notes to Unaudited Interim Financial Report

9. EXPECTED CREDIT LOSS *(Continued)*

(b) Expected credit loss on financial assets

The following tables set out information on the credit quality of financial assets, and loan commitments and financial guarantee contracts.

| | 30th June, 2023 | | | Total |
|---|------------------------|---------------|--------------|----------------|
| | Stage 1 | Stage 2 | Stage 3 | |
| Cash and balances with banks and central banks | | | | |
| Pass | 7,704 | – | – | 7,704 |
| Less: Expected credit loss | – | – | – | – |
| Carrying amount | 7,704 | – | – | 7,704 |
| Placements with banks, central banks and other financial institutions | | | | |
| Pass | 3,157 | – | – | 3,157 |
| Less: Expected credit loss | (1) | – | – | (1) |
| Carrying amount | 3,156 | – | – | 3,156 |
| Advances to customers | | | | |
| Pass | 165,570 | 27,164 | – | 192,734 |
| Special mention | – | 1,742 | – | 1,742 |
| Substandard | – | – | 2,199 | 2,199 |
| Doubtful | – | – | 510 | 510 |
| Loss | – | – | 26 | 26 |
| Less: Expected credit loss | (325) | (310) | (223) | (858) |
| Carrying amount | 165,245 | 28,596 | 2,512 | 196,353 |
| Trade bills | | | | |
| Pass | 1,195 | – | – | 1,195 |
| Less: Expected credit loss | (2) | – | – | (2) |
| Carrying amount | 1,193 | – | – | 1,193 |

9. EXPECTED CREDIT LOSS *(Continued)*

(b) Expected credit loss on financial assets (Continued)

| | 30th June, 2023 | | | Total |
|---|------------------------|--------------|---------|---------------|
| | Stage 1 | Stage 2 | Stage 3 | |
| Advances to banks | | | | |
| Pass | 1,543 | – | – | 1,543 |
| Less: Expected credit loss | – | – | – | – |
| Carrying amount | 1,543 | – | – | 1,543 |
| Debt securities measured at amortised cost | | | | |
| Pass | 4,970 | 543 | – | 5,513 |
| Less: Expected credit loss | – | – | – | – |
| Carrying amount | 4,970 | 543 | – | 5,513 |
| Financial assets measured at fair value through other comprehensive income | | | | |
| Pass | 74,008 | 5,980 | – | 79,988 |
| Special mention | – | 9 | – | 9 |
| Expected credit loss | (11) | (7) | – | (18) |
| For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed: | | | | |
| Contingent liabilities and commitments to extend credit | | | | |
| Pass | 63,292 | 4,777 | – | 68,069 |
| Expected credit loss | (228) | (34) | – | (262) |

Notes to Unaudited Interim Financial Report

9. EXPECTED CREDIT LOSS *(Continued)*

(b) Expected credit loss on financial assets (Continued)

| | 31st December, 2022 | | | Total |
|---|---------------------|---------------|--------------|----------------|
| | Stage 1 | Stage 2 | Stage 3 | |
| Cash and balances with banks and central banks | | | | |
| Pass | 10,645 | – | – | 10,645 |
| Less: Expected credit loss | – | – | – | – |
| Carrying amount | 10,645 | – | – | 10,645 |
| Placements with banks, central banks and other financial institutions | | | | |
| Pass | 3,903 | 1 | – | 3,904 |
| Less: Expected credit loss | (1) | – | – | (1) |
| Carrying amount | 3,902 | 1 | – | 3,903 |
| Advances to customers | | | | |
| Pass | 161,182 | 34,880 | – | 196,062 |
| Special mention | – | 1,357 | – | 1,357 |
| Substandard | – | – | 2,265 | 2,265 |
| Doubtful | – | – | 551 | 551 |
| Loss | – | – | 27 | 27 |
| Less: Expected credit loss | (343) | (380) | (267) | (990) |
| Carrying amount | 160,839 | 35,857 | 2,576 | 199,272 |
| Trade bills | | | | |
| Pass | 2,735 | 12 | – | 2,747 |
| Less: Expected credit loss | (1) | – | – | (1) |
| Carrying amount | 2,734 | 12 | – | 2,746 |

9. EXPECTED CREDIT LOSS *(Continued)*

(b) Expected credit loss on financial assets (Continued)

| | 31st December, 2022 | | | Total |
|---|---------------------|----------|----------|--------------|
| | Stage 1 | Stage 2 | Stage 3 | |
| Advances to banks | | | | |
| Pass | 1,454 | – | – | 1,454 |
| Less: Expected credit loss | – | – | – | – |
| Carrying amount | 1,454 | – | – | 1,454 |
| Debt securities measured at amortised cost | | | | |
| Pass | – | – | – | – |
| Less: Expected credit loss | – | – | – | – |
| Carrying amount | – | – | – | – |
| Financial assets measured at fair value through other comprehensive income | | | | |
| Pass | 77,500 | 1,685 | – | 79,185 |
| Special mention | – | 13 | – | 13 |
| Expected credit loss | (12) | (9) | – | (21) |
| For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed: | | | | |
| Contingent liabilities and commitments to extend credit | | | | |
| Pass | 57,855 | 10,040 | – | 67,895 |
| Special mention | – | – | – | – |
| Substandard | – | – | 1 | 1 |
| Expected credit losses | (207) | (98) | – | (305) |

10. ASSETS HELD FOR SALE

30th June, 2023 31st December, 2022

| | | |
|----------------------|-----------|---|
| Assets held for sale | | |
| – Bank premises | 10 | – |

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11. TANGIBLE FIXED ASSETS

| | Six months ended 30th June, 2023 | | | | | | | | |
|--|----------------------------------|---------------|-------------------------------------|---------------------|--------------|---------------------------------|-----------------|-----------------------------|--------------|
| | Investment properties | Bank premises | Right of use assets – Bank premises | Total Bank premises | Equipment | Right of use assets – equipment | Total equipment | Bank premises and equipment | Total |
| Cost or valuation | | | | | | | | | |
| At 1st January | 293 | 5,039 | 334 | 5,373 | 1,695 | 5 | 1,700 | 7,073 | 7,366 |
| Additions | - | - | 27 | 27 | 68 | - | 68 | 95 | 95 |
| Disposals | - | - | - | - | (26) | - | (26) | (26) | (26) |
| Reclassification of bank premises to assets held for sale | - | (34) | - | (34) | - | - | - | (34) | (34) |
| Surplus/(deficit) on revaluation | | | | | | | | | |
| – credited to bank premises revaluation reserve | - | 63 | - | 63 | - | - | - | 63 | 63 |
| – charged to consolidated statement of profit or loss | 30 | - | - | - | - | - | - | - | 30 |
| Elimination of accumulated depreciation on revalued bank premises | - | (51) | - | (51) | - | - | - | (51) | (51) |
| Termination of leases | - | - | (19) | (19) | - | - | - | (19) | (19) |
| Exchange adjustment | - | (7) | (3) | (10) | 1 | - | 1 | (9) | (9) |
| At 30th June | 323 | 5,010 | 339 | 5,349 | 1,738 | 5 | 1,743 | 7,092 | 7,415 |
| The analysis of cost or valuation of the above assets is as follows: | | | | | | | | | |
| At cost | - | 1,223 | 339 | 1,562 | 1,738 | 5 | 1,743 | 3,305 | 3,305 |
| At valuation 2023 | 323 | 3,787 | - | 3,787 | - | - | - | 3,787 | 4,110 |
| At 30th June | 323 | 5,010 | 339 | 5,349 | 1,738 | 5 | 1,743 | 7,092 | 7,415 |
| Accumulated depreciation | | | | | | | | | |
| At 1st January | - | 366 | 249 | 615 | 1,364 | 1 | 1,365 | 1,980 | 1,980 |
| Charge for the period | - | 69 | 31 | 100 | 61 | 1 | 62 | 162 | 162 |
| Written back on disposals | - | - | - | - | (24) | - | (24) | (24) | (24) |
| Reclassification of bank premises to assets held for sale | - | (24) | - | (24) | - | - | - | (24) | (24) |
| Elimination of accumulated depreciation on revalued bank premises | - | (51) | - | (51) | - | - | - | (51) | (51) |
| Termination of leases | - | - | (11) | (11) | - | - | - | (11) | (11) |
| Exchange adjustment | - | (6) | (2) | (8) | - | - | - | (8) | (8) |
| At 30th June | - | 354 | 267 | 621 | 1,401 | 2 | 1,403 | 2,024 | 2,024 |
| Net book value | | | | | | | | | |
| At 30th June | 323 | 4,656 | 72 | 4,728 | 337 | 3 | 340 | 5,068 | 5,391 |

11. TANGIBLE FIXED ASSETS *(Continued)*

| | Year ended 31st December, 2022 | | | | | | | | |
|--|--------------------------------|---------------|-------------------------------------|---------------------|--------------|---------------------------------|-----------------|-----------------------------|--------------|
| | Investment properties | Bank premises | Right of use assets – Bank premises | Total Bank premises | Equipment | Right of use assets – equipment | Total equipment | Bank premises and equipment | Total |
| Cost or valuation | | | | | | | | | |
| At 1st January | 310 | 5,240 | 317 | 5,557 | 1,601 | 5 | 1,606 | 7,163 | 7,473 |
| Additions | - | - | 63 | 63 | 136 | 1 | 137 | 200 | 200 |
| Disposals | - | - | - | - | (44) | - | (44) | (44) | (44) |
| Reclassification of bank premises to assets held for sale | - | (43) | - | (43) | - | - | - | (43) | (43) |
| Surplus/(deficit) on revaluation | | | | | | | | | |
| - credited to bank premises revaluation reserve | - | (26) | - | (26) | - | - | - | (26) | (26) |
| - charged to consolidated statement of profit or loss | (17) | - | - | - | - | - | - | - | (17) |
| Elimination of accumulated depreciation on revalued bank premises | | | | | | | | | |
| | - | (105) | - | (105) | - | - | - | (105) | (105) |
| Termination of leases | - | - | (39) | (39) | - | (1) | (1) | (40) | (40) |
| Exchange adjustment | - | (27) | (7) | (34) | 2 | - | 2 | (32) | (32) |
| At 31st December | 293 | 5,039 | 334 | 5,373 | 1,695 | 5 | 1,700 | 7,073 | 7,366 |
| The analysis of cost or valuation of the above assets is as follows: | | | | | | | | | |
| At cost | - | 1,263 | 334 | 1,597 | 1,695 | 5 | 1,700 | 3,297 | 3,297 |
| At valuation 2022 | 293 | 3,776 | - | 3,776 | - | - | - | 3,776 | 4,069 |
| At 31st December | 293 | 5,039 | 334 | 5,373 | 1,695 | 5 | 1,700 | 7,073 | 7,366 |
| Accumulated depreciation | | | | | | | | | |
| At 1st January | - | 387 | 220 | 607 | 1,290 | 1 | 1,291 | 1,898 | 1,898 |
| Charge for the year | - | 131 | 71 | 202 | 116 | 1 | 117 | 319 | 319 |
| Written back on disposals | - | - | - | - | (42) | - | (42) | (42) | (42) |
| Reclassification of bank premises to assets held for sale | - | (22) | - | (22) | - | - | - | (22) | (22) |
| Elimination of accumulated depreciation on revalued bank premises | | | | | | | | | |
| | - | (105) | - | (105) | - | - | - | (105) | (105) |
| Termination of leases | - | - | (38) | (38) | - | (1) | (1) | (39) | (39) |
| Exchange adjustment | - | (25) | (4) | (29) | - | - | - | (29) | (29) |
| At 31st December | - | 366 | 249 | 615 | 1,364 | 1 | 1,365 | 1,980 | 1,980 |
| Net book value | | | | | | | | | |
| At 31st December | 293 | 4,673 | 85 | 4,758 | 331 | 4 | 335 | 5,093 | 5,386 |

Notes to Unaudited Interim Financial Report

12. DEPOSITS FROM CUSTOMERS

| | 30th June, 2023 | 31st December, 2022 |
|--------------------------------------|------------------------|---------------------|
| Demand deposits and current accounts | 80,308 | 94,359 |
| Savings deposits | 22,053 | 24,276 |
| Time, call and notice deposits | 144,575 | 128,575 |
| | 246,936 | 247,210 |

The above deposits from customers included deposits from central banks.

13. CERTIFICATES OF DEPOSIT AND FIXED RATE NOTE ISSUED

| | 30th June, 2023 | 31st December, 2022 |
|--|------------------------|---------------------|
| Certificates of deposit issued at amortised cost | 2,873 | 8,243 |
| Fixed rate note issued at amortised cost | 3,255 | 3,368 |
| | 6,128 | 11,611 |

14. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities:

| | 30th June, 2023 | | 31st December, 2022 | |
|--------------------------------------|---|---------------------------------|---|---------------------------------|
| | Present value of the minimum lease payments | Total minimum lease payments | Present value of the minimum lease payments | Total minimum lease payments |
| Within 1 year | 46 | 47 | 46 | 47 |
| After 1 year but within 2 years | 25 | 26 | 30 | 30 |
| After 2 years but within 5 years | 6 | 6 | 14 | 15 |
| After 5 years | – | – | – | – |
| | 31 | 32 | 44 | 45 |
| | 77 | 79 | 90 | 92 |
| Less: total future interest expenses | | (2) | | (2) |
| Present value of lease liabilities | | 77 | | 90 |

15. OTHER ACCOUNTS AND PROVISIONS

| | 30th June, 2023 | 31st December, 2022 |
|---|------------------------|---------------------|
| Acceptances outstanding | 449 | 856 |
| Interest payable | 1,553 | 926 |
| Negative fair value of derivative financial instruments held for hedging (note 17) | 107 | 292 |
| Other payables | 2,087 | 2,136 |
| Expected credit loss (Stages 1 and 2) on contingent liabilities and commitments to extend credit (note 9) | 262 | 305 |
| | 4,458 | 4,515 |

16. RESERVES

The Group's unappropriated profits as at 30th June, 2023 included a regulatory reserve of HK\$686 million (31st December, 2022: HK\$619 million). The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Group will or may incur on advances to customers in addition to expected credit loss recognised. Movements in the reserve are earmarked directly through unappropriated profits and in consultation with the HKMA.

17. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

Derivative financial instruments arise from forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate and equity markets.

Derivative financial instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter ("OTC") derivatives. The Group also participates in exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to hedge these and other trading positions. For accounting purposes, derivatives are classified as held for trading or held for hedging.

The notional amounts of these instruments indicate the volume of transactions outstanding at the reporting date and do not represent amounts at risk.

Notes to Unaudited Interim Financial Report

17. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The following table is a summary of the notional amounts of each significant type of derivatives.

| | 30th June, 2023 | | Total |
|-----------------------------|------------------------------------|---------------------------------------|------------------|
| | Qualifying for hedge accounting | Others, including held for trading | |
| Exchange rate contracts | 4,649 | 580,871 | 585,520 |
| Interest rate contracts | 42,318 | 926,401 | 968,719 |
| Equity contracts | – | 7,678 | 7,678 |
| Credit derivative contracts | – | 3,443 | 3,443 |
| | 46,967 | 1,518,393 | 1,565,360 |

| | 31st December, 2022 | | Total |
|-----------------------------|------------------------------------|---------------------------------------|-----------|
| | Qualifying for hedge accounting | Others, including held for trading | |
| Exchange rate contracts | 4,273 | 474,553 | 478,826 |
| Interest rate contracts | 31,524 | 740,064 | 771,588 |
| Equity contracts | – | 8,363 | 8,363 |
| Credit derivative contracts | – | 3,536 | 3,536 |
| | 35,797 | 1,226,516 | 1,262,313 |

The trading transactions include the Group's positions arising from the execution of trade orders from customers or transactions undertaken to hedge these positions. Derivatives arise from futures, forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate, debt and equity markets. The notional amounts of these instruments indicate the volume of transactions outstanding at the end of the reporting period; they do not represent amounts at risk.

The fair values of derivative financial instruments held for trading purposes are as follows:

| | 30th June, 2023 | | 31st December, 2022 | |
|-----------------------------|-----------------|---------------|---------------------|-------------|
| | Assets | Liabilities | Assets | Liabilities |
| Exchange rate contracts | 11,402 | 11,763 | 6,555 | 6,536 |
| Interest rate contracts | 2,588 | 2,463 | 1,548 | 1,493 |
| Equity contracts | 439 | 439 | 656 | 656 |
| Credit derivative contracts | 6 | 2 | 5 | – |
| | 14,435 | 14,667 | 8,764 | 8,685 |

17. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The fair values of derivative financial instruments held for hedging purposes are as follows:

| | 30th June, 2023 | | 31st December, 2022 | |
|-------------------------|-----------------|-------------|---------------------|-------------|
| | Assets | Liabilities | Assets | Liabilities |
| Exchange rate contracts | 131 | 67 | 96 | 143 |
| Interest rate contracts | 479 | 40 | 509 | 149 |
| | 610 | 107 | 605 | 292 |

Fair value hedges

The fair value hedges principally consist of interest rate swaps. The interest rate swaps are used to protect against changes in the fair value of certain fixed rate assets and floating rate assets due to movements in market interest rates. At 30th June, 2023, the net positive fair value of derivatives held as fair value hedges was HK\$503 million (31st December, 2022: net positive fair value of HK\$313 million).

The gains on the hedging instruments for the period were HK\$44 million (31st December, 2022: gains of HK\$644 million). The losses on the hedged item attributable to the hedged risk for the period were HK\$33 million (31st December, 2022: losses of HK\$645 million).

Notes to Unaudited Interim Financial Report

18. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash outflow from operating activities

| | Six months ended 30th June, 2023 | Six months ended 30th June, 2022 |
|--|-------------------------------------|-------------------------------------|
| Operating profit | 2,332 | 1,273 |
| Adjustments for non-cash items: | | |
| Change in expected credit loss and other credit impairment charges | (136) | 352 |
| Interest expense on fixed rate note issued | 55 | 38 |
| Interest expense on lease liabilities | 1 | 1 |
| Net losses/(gains) from disposal of financial assets measured at fair value through other comprehensive income (note 4(e)) | 13 | (29) |
| (Gains)/losses on revaluation of investment properties (note 4(e)) | (30) | 10 |
| Losses/(gains) on disposal of tangible fixed assets (note 4(e)) | 3 | (57) |
| Depreciation (note 4(f)) | 162 | 159 |
| | 2,400 | 1,747 |
| Changes in working capital: | | |
| Change in placements with banks, central banks and other financial institutions with an original maturity of three months or above | (517) | – |
| Change in treasury bills with an original maturity of three months or above | 3,460 | (192) |
| Change in amounts due from ultimate holding company and fellow subsidiaries maturing after three months | (3,480) | (9,435) |
| Change in certificates of deposit held | (382) | (6,135) |
| Change in trading assets | (6,214) | (1,377) |
| Change in advances to customers and other accounts | 4,864 | (2,411) |
| Change in deposits and balances of banks | 2,745 | 8,411 |
| Change in amounts due to ultimate holding company and fellow subsidiaries | (6,313) | (1,371) |
| Change in deposits from customers | (275) | (343) |
| Change in certificates of deposit issued | (5,370) | 1,833 |
| Change in trading liabilities | 5,982 | 1,088 |
| Change in other accounts and provision | (11) | (206) |
| Net cash outflow from operations | (3,111) | (8,391) |
| Profits tax paid | (242) | (58) |
| Net cash outflow from operating activities | (3,353) | (8,449) |

18. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Reconciliation of cash and cash equivalents with the consolidated statement of financial position

| | 30th June, 2023 | 31st December, 2022 |
|---|------------------------|---------------------|
| Cash and balances with banks and central banks | 7,704 | 10,645 |
| Placements with banks, central banks and other financial institutions | 3,156 | 3,904 |
| Amounts due from ultimate holding company and fellow subsidiaries | 10,594 | 18,324 |
| Treasury bills | 21,258 | 24,428 |
| <hr/> | | |
| Amounts shown in the consolidated statement of financial position | 42,712 | 57,301 |
| Less: Amounts with an original maturity of three months or above | (24,974) | (24,439) |
| Deposits and balances of bank that are repayable on demand | (1,877) | (2,087) |
| <hr/> | | |
| Cash and cash equivalents in the consolidated cash flow statement | 15,861 | 30,775 |

19. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. The segment disclosure is based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters.

Hong Kong segment

This is mainly composed of retail banking activities, corporate banking activities and treasury activities.

Retail banking activities include acceptance of deposits, residential mortgages, hire purchase, consumer loans, wealth management, stock brokerage and insurance services.

Corporate banking activities include acceptance of deposits, advance of commercial and industrial loans, trade financing and institutional banking.

Treasury activities include foreign exchange services, management of investment securities, trading activities and management of shareholders' funds.

Notes to Unaudited Interim Financial Report

19. SEGMENT REPORTING *(Continued)*

Mainland China segment

This comprises the business of OCBC Wing Hang Bank (China) Limited, for which the main business is corporate banking and treasury activities.

Macau segment

This comprises the business of OCBC Bank (Macau) Limited (formerly known as “Banco OCBC Weng Hang, S.A.”), for which the main business is retail banking activities.

For the purposes of assessing segment performance and allocating resources between segments, the Group’s chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include tangible assets (such as equipment of the Group and overseas bank premises), balance and placement with banks, central banks and other financial institutions and advances to customers and banks which have been reported under Mainland China and Macau segments and financial assets excluding goodwill, interest in associated companies, taxation and other assets. Segment liabilities include deposits and financial liabilities.

Revenue and expenses are allocated to the reportable segments with reference to interest and fees and commission income generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.

The identification of reportable segments also considered geographical information which has been classified by the geographical location of the principal operations of the subsidiaries, or in the case of the Bank itself, of the geographical location of the branch responsible for reporting the results or booking the assets and liabilities.

Specified non-current assets of the Group include tangible fixed assets, goodwill and investments in associated companies.

“Others” in the reconciliation to the reported amount on the consolidated statement of profit or loss and consolidated statement of financial position mainly represent the management of equity shares.

19. SEGMENT REPORTING *(Continued)*

(a) **Segment results, assets and liabilities**

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

| | Hong Kong | | | Total | Mainland China | Macau | Total |
|---|-------------------|----------------------|---------------|----------------|-------------------|---------------|----------------|
| | Retail banking | Corporate banking | Treasury | | | | |
| Six months ended 30th June, 2023 | | | | | | | |
| Net interest income | 1,227 | 559 | 449 | 2,235 | 675 | 287 | 3,197 |
| Non-interest income/(expense) | 250 | 71 | (21) | 300 | 438 | 64 | 802 |
| Reportable segment revenue | 1,477 | 630 | 428 | 2,535 | 1,113 | 351 | 3,999 |
| Operating expenses | (830) | (258) | (112) | (1,200) | (589) | (175) | (1,964) |
| Operating profit before expected credit loss | 647 | 372 | 316 | 1,335 | 524 | 176 | 2,035 |
| Change in expected credit loss and other credit impairment charges | 44 | (31) | 2 | 15 | 92 | 25 | 132 |
| Reportable segment profit before tax | 691 | 341 | 318 | 1,350 | 616 | 201 | 2,167 |
| Depreciation | 24 | – | – | 24 | 66 | 11 | 101 |
| At 30th June, 2023 | | | | | | | |
| Reportable segment assets | 65,949 | 74,863 | 75,159 | 215,971 | 82,806 | 29,688 | 328,465 |
| Addition to non-current segment assets | 3 | 1 | 1 | 5 | 24 | 1 | 30 |
| Reportable segment liabilities | 132,697 | 51,862 | 4,443 | 189,002 | 72,340 | 24,633 | 285,975 |

Notes to Unaudited Interim Financial Report

19. SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities (Continued)

| | Hong Kong | | | | Mainland China | Macau | Total |
|---|-------------------|----------------------|----------|---------|-------------------|--------|---------|
| | Retail banking | Corporate banking | Treasury | Total | | | |
| Six months ended 30th June, 2022 | | | | | | | |
| Net interest income | 769 | 396 | 345 | 1,510 | 588 | 258 | 2,356 |
| Non-interest income | 259 | 68 | 76 | 403 | 439 | 73 | 915 |
| Reportable segment revenue | 1,028 | 464 | 421 | 1,913 | 1,027 | 331 | 3,271 |
| Operating expenses | (789) | (243) | (109) | (1,141) | (546) | (165) | (1,852) |
| Operating profit before expected credit loss | 239 | 221 | 312 | 772 | 481 | 166 | 1,419 |
| Change in expected credit loss and other credit impairment charges | (10) | (71) | (2) | (83) | (161) | (7) | (251) |
| Reportable segment profit before tax | 229 | 150 | 310 | 689 | 320 | 159 | 1,168 |
| Depreciation | 31 | – | 1 | 32 | 58 | 11 | 101 |
| At 31st December, 2022 | | | | | | | |
| Reportable segment assets | 68,078 | 73,346 | 75,180 | 216,604 | 83,927 | 31,486 | 332,017 |
| Addition to non-current segment assets | 33 | 1 | – | 34 | 58 | 10 | 102 |
| Reportable segment liabilities | 124,958 | 49,531 | 12,209 | 186,698 | 73,540 | 26,284 | 286,522 |

19. SEGMENT REPORTING *(Continued)*

(a) *Segment results, assets and liabilities (Continued)*

Reconciliations of reportable segment revenue, profit before taxation, assets and liabilities:

| | Six months ended 30th June, 2023 | Six months ended 30th June, 2022 |
|--------------------------------------|---|-------------------------------------|
| Revenue | | |
| Reportable segment revenue | 3,999 | 3,271 |
| Other revenue | 224 | 227 |
| Elimination of inter-segment revenue | (28) | (30) |
| Consolidated operating income | 4,195 | 3,468 |

| | Six months ended 30th June, 2023 | Six months ended 30th June, 2022 |
|--|---|-------------------------------------|
| Profit before taxation | | |
| Reportable segment profit before taxation | 2,167 | 1,168 |
| Share of net gains of associated companies | 39 | 67 |
| Other net gains | 165 | 105 |
| Consolidated profit before taxation | 2,371 | 1,340 |

| | 30th June, 2023 | 31st December, 2022 |
|-------------------------------------|------------------------|---------------------|
| Assets | | |
| Reportable segment assets | 328,465 | 332,017 |
| Investments in associated companies | 732 | 569 |
| Tangible fixed assets | 4,443 | 4,405 |
| Goodwill | 1,306 | 1,306 |
| Current tax recoverable | 40 | 4 |
| Deferred tax assets | 6 | 7 |
| Other assets | 11,866 | 11,856 |
| Elimination of inter-segment assets | (10,385) | (10,681) |
| Consolidated total assets | 336,473 | 339,483 |

Notes to Unaudited Interim Financial Report

19. SEGMENT REPORTING *(Continued)*

(a) *Segment results, assets and liabilities (Continued)*

30th June, 2023 31st December, 2022

Liabilities

| | | |
|--|----------------|---------|
| Reportable segment liabilities | 285,975 | 286,522 |
| Current tax payable | 327 | 175 |
| Deferred tax liabilities | 327 | 250 |
| Other liabilities | 6,430 | 11,814 |
| Elimination of inter-segment liabilities | (3,048) | (5,344) |
| | 290,011 | 293,417 |

(b) *Other geographical information*

30th June, 2023

| | Hong Kong | Mainland China | Macau | Less: inter- segment elimination | Total |
|---|---------------|-------------------|--------------|--|---------------|
| Specified non-current assets | 6,469 | 385 | 564 | 11 | 7,429 |
| Contingent liabilities and commitments | 23,706 | 42,609 | 2,448 | (684) | 68,079 |

31st December, 2022

| | Hong Kong | Mainland China | Macau | Less: inter- segment elimination | Total |
|---|-----------|-------------------|-------|--|--------|
| Specified non-current assets | 6,269 | 407 | 574 | 11 | 7,261 |
| Contingent liabilities and commitments | 25,871 | 40,180 | 2,528 | (683) | 67,896 |

20. LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk arising from the inability to meet financial and cash outflow obligations as they fall due without incurring unacceptable costs or losses through fund raising and asset liquidation. The Group's primary objective of liquidity risk management is to ensure that we have sufficient funds to meet contractual and regulatory financial obligations and to undertake new transactions.

Liquidity monitoring is performed daily within a framework for projecting cash flows on both contractual and behavioural bases. Indicators such as liquidity and deposit concentration ratios are used to establish the optimal funding mix and asset composition. Funding strategies are established to provide effective diversification and stability in funding sources across tenors and products. The liquidity indicators are subject to ALCO's review on a regular basis against the targets.

Simulations of liquidity exposures under stressed market scenarios are performed and the results are used to adjust liquidity risk management strategies, policies and positions, as well as to develop contingency funding plan. We maintain liquid assets in excess of regulatory requirements to strengthen our ability to meet liquidity needs during a crisis. These liquid assets comprise central bank reserves and marketable securities. The Group performs liquidity stress tests under institution specific, market wide and combined liquidity stress scenarios. The stressed results are provided to ALCO monthly for review. Stress tests are performed at the group consolidated and each bank subsidiary level. Stress assumptions are reviewed by the ALCO regularly to ensure the effectiveness.

The Group has formulated a contingency plan setting out strategies for dealing with a liquidity crisis and the procedures for making up cash-flow deficits in emergency situations. The plan is updated and reviewed at least annually by ALCO to ensure that it remains robust over time. Any revision will be concurred by the Board-level Risk Management Committee. Apart from the liquidity limits and ratios agreed with the HKMA, the Group will promptly inform the HKMA of any indicators of serious liquidity problems, which may trigger the contingency funding plan.

The Group maintained an average liquidity maintenance ratio and core funding ratio of 46.2% and 151.5% respectively for the six months ended 30th June, 2023 (30th June, 2022: 36.4% of LMR; 137.0% of CFR), which are well above the statutory requirement of 25% and 75% respectively. The liquidity maintenance ratio and core funding ratio are compiled in accordance with the Banking (Liquidity) Rules.

Roles and responsibilities in the Group's liquidity risk management structure are mainly distributed across different committees and hierarchical levels: Board of Directors, Risk Management Committee, ALCO, Funding Strategy Committee, Investment Strategy Committee, Global Treasury Division, Finance Division, Risk Management Division, Corporate Banking Division and Retail Banking Division.

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20. LIQUIDITY RISK MANAGEMENT *(Continued)*

Liquidity is managed on a day-to-day basis by the Treasurer under the direction of ALCO. ALCO is responsible for overseeing liquidity risk management, in particular implementation of appropriate liquidity policies and procedures, identifying, measuring and monitoring liquidity risk, and control over the liquidity risk management process. The Board of Directors approves the liquidity risk strategy and framework policies, and is responsible for maintaining continued awareness of the overall liquidity risk profile, and ensuring liquidity risk is adequately managed and controlled by senior management within the established risk management framework.

Customer deposits form an important part of funding source of the Group. The Retail Banking Division and Wholesale Banking Division are responsible for maintaining customer deposits as well as advising their funding needs to the Treasury Division. The heads of business units provide the latest information to the Funding Strategy Committee on material customer deposits balance movements and strategy to tap deposits.

Global Treasury Division acts in accordance with the Liquidity Asset Portfolio Framework and Debt Securities Investment Framework to address the issue of liquidity cushions. The objective of the Liquidity Asset Portfolio Framework is to ensure that the Group can meet its obligations when they fall due in normal circumstances, and maintains an adequate stock of high quality liquid assets in the portfolio that could provide a safety cushion in the event of a funding crisis.

The Group adopts a centralised approach in liquidity and funding management for domestic and overseas subsidiaries. The overseas subsidiaries take responsibility for managing their funding arrangements in relation to the use and application of funds.

21. FAIR VALUES OF FINANCIAL INSTRUMENTS

(a) *Financial instruments measured at fair value*

Financial instruments measured at fair value on an ongoing basis include trading assets and liabilities, financial instruments designated at fair value through profit or loss, and financial instruments classified as measured at fair value through other comprehensive income.

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values at the end of the reporting period on a recurring basis using the following fair value hierarchy as defined in HKFRS 13, *Fair value measurement* that reflects the observability and significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes all instruments where the valuation technique includes inputs not based on observable market data and for which unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Notes to Unaudited Interim Financial Report

21. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Financial instruments measured at fair value *(Continued)*

Fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments that are not traded in the active markets, the Group determines fair values using valuation techniques. Valuation techniques include net present value of expected future cash flows and discounted cash flow models based on “no-arbitrage” principles, standard option pricing models across the industry for vanilla derivative products. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

The majority of valuation techniques employ only observable market data. Hence, the reliability of the fair values measurement is high. However, certain financial instruments are valued on the basis of one or more significant market inputs that are not observable. The fair value derived is more judgemental. “Not observable” does not mean there is absolutely no market data available, but rather that there is little or no current market data available from which to determine the level at which an arm’s length transaction would likely occur. Examples of observable inputs include foreign exchange spot and forward rates, benchmark interest rate curves and volatility surfaces for commonly traded option products. Examples of unobservable inputs include volatility surfaces for less commonly traded option products and correlations between market factors.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the valuation uncertainty associated with determination of fair values. Availability varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses the broker pricing service, which adopts proprietary valuation models as inputs to a fair value measurement. These models are usually developed from recognised valuation models across the industry with some or all of the inputs into these models being unobservable in the market.

Fair values are subject to a control framework that aims to ensure that they are either determined or validated by a function independent of the risk-taker. To this end, the ultimate responsibility for the determination of fair values lies with Treasury Financial Control and Advisory Team within Finance Division. Treasury Financial Control and Advisory Team within Finance Division establishes procedures governing valuation, and is responsible for ensuring that these comply with all relevant accounting standards.

21. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Financial instruments measured at fair value (Continued)

The table below analyses financial instruments measured at fair value at the reporting date according to the level in the fair value hierarchy into which they are categorised:

| Recurring fair value measurements | 30th June, 2023 | | | Total |
|---|-----------------|---------------|--------------|---------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Trading assets | | | | |
| – Treasury bills | 858 | – | – | 858 |
| – Other debt securities | 1,589 | – | – | 1,589 |
| – Positive fair values of derivative financial instruments held for trading | 8 | 14,089 | 338 | 14,435 |
| | 2,455 | 14,089 | 338 | 16,882 |
| Advances to customers and other accounts | | | | |
| – Positive fair values of derivative financial instruments held for hedging | – | 610 | – | 610 |
| Financial assets measured at fair value through other comprehensive income | | | | |
| – Treasury bills | 16,400 | 4,000 | – | 20,400 |
| – Certificates of deposit held | 4,051 | 17,485 | – | 21,536 |
| – Other debt securities | 31,638 | 6,423 | – | 38,061 |
| – Equity securities | – | – | 2,244 | 2,244 |
| | 52,089 | 27,908 | 2,244 | 82,241 |
| | 54,544 | 42,607 | 2,582 | 99,733 |
| Liabilities | | | | |
| Trading liabilities | | | | |
| – Negative fair values of derivative financial instruments held for trading | 7 | 14,322 | 338 | 14,667 |
| Other accounts and provisions | | | | |
| – Negative fair values of derivative financial instruments held for hedging | – | 107 | – | 107 |
| | 7 | 14,429 | 338 | 14,774 |

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21. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Financial instruments measured at fair value (Continued)

| Recurring fair value measurements | 31st December, 2022 | | | Total |
|---|---------------------|---------|---------|--------|
| | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Trading assets | | | | |
| – Treasury bills | 11 | – | – | 11 |
| – Other debt securities | 1,046 | – | – | 1,046 |
| – Positive fair values of derivative financial instruments held for trading | 3 | 8,761 | – | 8,764 |
| | 1,060 | 8,761 | – | 9,821 |
| Advances to customers and other accounts | | | | |
| – Positive fair values of derivative financial instruments held for hedging | 1 | 604 | – | 605 |
| Financial assets measured at fair value through other comprehensive income | | | | |
| – Treasury bills | 20,149 | 4,268 | – | 24,417 |
| – Certificates of deposit held | 4,009 | 17,145 | – | 21,154 |
| – Other debt securities | 29,190 | 4,437 | – | 33,627 |
| – Equity securities | – | – | 2,616 | 2,616 |
| | 53,348 | 25,850 | 2,616 | 81,814 |
| | 54,409 | 35,215 | 2,616 | 92,240 |
| Liabilities | | | | |
| Trading liabilities | | | | |
| – Negative fair values of derivative financial instruments held for trading | | | | |
| Other accounts and provisions | 2 | 8,681 | 2 | 8,685 |
| – Negative fair values of derivative financial instruments held for hedging | – | 292 | – | 292 |
| | 2 | 8,973 | 2 | 8,977 |

During the period ended 30th June, 2023, there were no material transfers between Level 1 and Level 2 (year ended 31st December, 2022: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

21. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) *Financial instruments measured at fair value (Continued)*

(i) **Valuation of financial instruments with significant unobservable inputs**

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

| | Six months ended 30th June, 2023 | | |
|--|--|---|--------------|
| | Financial assets measured at fair value through other comprehensive income – Equity securities | Net fair values of derivative financial instrument held for trading | Total |
| Assets/(liabilities) | | | |
| At 1st January | 2,616 | (2) | 2,614 |
| Purchases | – | – | – |
| Sales | – | – | – |
| Settlements | – | – | – |
| Transfers | – | – | – |
| Changes in fair value recognised in the consolidated income statement | – | 2 | 2 |
| Changes in fair value recognised in the consolidated statement of other comprehensive income | (372) | – | (372) |
| At 30th June | 2,244 | – | 2,244 |
| Total gains or losses for the period included in investment revaluation reserve of the other comprehensive income for assets held at the reporting date | (372) | – | (372) |
| Total gains or losses for the period included in the consolidated statement of profit or loss for assets held at the reporting date | | | |
| – Net trading income | – | 2 | 2 |
| – Net gains from financial instruments designated at fair value through profit or loss | – | – | – |

Notes to Unaudited Interim Financial Report

21. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) *Financial instruments measured at fair value (Continued)*

(i) **Valuation of financial instruments with significant unobservable inputs** *(Continued)*

| | Year ended 31st December, 2022 | | Total |
|--|--|---|--------------|
| | Financial assets measured at fair value through other comprehensive income – Equity securities | Net fair values of derivative financial instrument held for trading | |
| Assets/(liabilities) | | | |
| At 1st January | 2,505 | 1 | 2,506 |
| Purchases | – | – | – |
| Sales | – | – | – |
| Settlements | – | – | – |
| Transfers | – | – | – |
| Changes in fair value recognised in the consolidated income statement | – | (3) | (3) |
| Changes in fair value recognised in the consolidated statement of other comprehensive income | 111 | – | 111 |
| At 31st December | 2,616 | (2) | 2,614 |
| Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the reporting date | 111 | – | 111 |
| Total gains or losses for the year included in the consolidated statement of profit or loss for assets held at the reporting date | | | |
| – Net trading income | – | (3) | (3) |
| – Net gains from financial instruments designated at fair value through profit or loss | – | – | – |

21. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) *Financial instruments measured at fair value (Continued)*

(i) **Valuation of financial instruments with significant unobservable inputs** *(Continued)*

Information about significant unobservable inputs in Level 3 valuations

| | Valuation technique | Significant unobservable inputs | Range |
|--|----------------------------|--|--|
| Unlisted equity securities measured at fair value through other comprehensive income | Discounted cash flow model | Discount rates | 8.58%-14.84% (2022: 5.37%-15.80%) |
| | | Terminal growth rate | 3% (2022: 3%) |
| | Market-comparable approach | P/E ratios | 21.40x (2022: 31.97x) |
| | | Marketability discount | 15.00%-20.00% (2022: 15.00%-20.00%) |
| | | Enterprise value/EBITDA ratios | 4.60x-26.48x (2022: 4.60x-24.09x) |
| | | P/B ratios | 1.73x (2022: 1.73x) |

The fair value of unlisted financial assets measured at fair value through other comprehensive income is determined using the discounted cash flow model and market-comparable approach. For discounted cash flow model, the significant unobservable inputs used in the fair value measurement are forecasted cash flows, discount rates and terminal growth rate. The fair value measurement is positively correlated to the net cash inflows and terminal growth rate. For market-comparable approach, the significant unobservable inputs used in the fair value measurement are P/E ratios, marketability discount, enterprise value/EBITDA ratios and P/B ratios.

The fair value of derivative financial instruments held for trading is determined based on similar methodology as that of derivative financial instruments classified as level 2 in the fair value hierarchy with significant unobservable inputs being the forecasted optimum rate of a derivative contract adopted for the fair value measurement of the optionality component to exercise partial take-up right of the derivative contract.

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21. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) *Financial instruments measured at fair value (Continued)*

(ii) **Effect of changes in significant non-observable assumptions to reasonably possible alternative assumptions**

The fair value of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair values in Level 3 due to parallel movement of plus or minus 10 percent of change in fair value to reasonably possible alternative assumptions. This Level 3 sensitivity analysis assumes a one-way market move and does not consider offsets for hedges.

| | 30th June, 2023 | | | |
|---|----------------------------|-------------------------|-----------------------|-------------------------|
| | Reflected in profit/(loss) | | Reflected in other | |
| | Favourable changes | Unfavourable changes | Favourable changes | Unfavourable changes |
| Trading assets | | | | |
| – Positive fair values of derivative financial instruments held for trading purpose | 34 | (34) | – | – |
| Financial assets measured at fair value through other comprehensive income | | | | |
| – Equity securities | – | – | 224 | (224) |
| Trading liabilities | | | | |
| – Negative fair values of derivative financial instruments held for trading purpose | 34 | (34) | – | – |
| | | | | |
| | 31st December, 2022 | | | |
| | Reflected in profit/(loss) | | Reflected in other | |
| | Favourable changes | Unfavourable changes | Favourable changes | Unfavourable changes |
| Financial assets measured at fair value through other comprehensive income | | | | |
| – Equity securities | – | – | 262 | (262) |

21. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30th June, 2023 and 31st December, 2022 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

| | 30th June, 2023 | | | | |
|---|------------------------|--------------|---------|--------------|---------|
| | Carrying value | Fair value | Level 1 | Level 2 | Level 3 |
| Financial liabilities | | | | | |
| Certificates of deposit issued at amortised cost | 2,873 | 2,873 | – | 2,873 | – |
| Fixed rate note issued at amortised cost | 3,255 | 3,253 | – | 3,253 | – |
| | | | | | |
| | 31st December, 2022 | | | | |
| | Carrying value | Fair value | Level 1 | Level 2 | Level 3 |
| Financial liabilities | | | | | |
| Certificates of deposit issued at amortised cost | 8,243 | 8,242 | – | 8,242 | – |
| Fixed rate note issued at amortised cost | 3,368 | 3,364 | – | 3,364 | – |

The following methods and significant assumptions have been applied in determining the fair values of financial instruments not presented above.

- (i) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the reporting date.
- (ii) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the expected credit loss from their carrying amount.

Notes to Unaudited Interim Financial Report

21. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Fair values of financial instruments carried at other than fair value *(Continued)*

- (iii) The fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the expected credit loss from both the carrying amount and fair value.

- (iv) The fair value of unquoted equity investments is estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuers.

22. DISCLOSURE REQUIREMENTS UNDER THE BANKING (DISCLOSURE) RULES

The detailed disclosures required by the Banking (Disclosure) Rules will be disclosed by 30th September, 2023 under "Regulatory Disclosure" on the website of the Bank (www.ocbc.com.hk).



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