# PUBLIC FINANCE LIMITED

## INTERIM FINANCIAL STATEMENTS
## FOR THE SIX MONTHS ENDED 30 JUNE 2023

CONTENTS


| | Pages |
|---|---|
| CONDENSED CONSOLIDATED INCOME STATEMENT | 1 |
| CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME | 2 |
| CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION | 3 |
| CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | 4 |
| CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS | 5 |
| NOTES TO INTERIM FINANCIAL STATEMENTS | 7 |
| SUPPLEMENTARY FINANCIAL INFORMATION | 66 |
| BUSINESS PERFORMANCE | 70 |

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

## INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

### CONDENSED CONSOLIDATED INCOME STATEMENT

| | Notes | For the six months ended 30 June<br>**2023**<br>**(Unaudited)**<br>**HK$'000** | <br>2022<br>(Unaudited)<br>HK$'000 |
|---|---|---|---|
| Interest income | 7 | **351,946** | 342,569 |
| Interest expense | 7 | **(97,556)** | (22,865) |
| **NET INTEREST INCOME** | | **254,390** | 319,704 |
| Fees and commission income | 8 | **78,500** | 53,863 |
| Other operating income | 9 | **529** | 1,376 |
| **OPERATING INCOME** | | **333,419** | 374,943 |
| Operating expenses | 10 | **(207,542)** | (202,585) |
| Changes in fair value of investment properties | | **370** | (127) |
| **OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES** | | **126,247** | 172,231 |
| Credit loss expenses | 11 | **(58,827)** | (46,113) |
| **PROFIT BEFORE TAX** | | **67,420** | 126,118 |
| Tax | 12 | **(11,063)** | (20,860) |
| **PROFIT FOR THE PERIOD** | | **56,357** | 105,258 |
| **ATTRIBUTABLE TO:** | | | |
| Owners of the Company | | **56,357** | 105,258 |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | For the six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| **PROFIT FOR THE PERIOD** | **56,357** | 105,258 |
| **OTHER COMPREHENSIVE INCOME FOR THE PERIOD** | **-** | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **56,357** | 105,258 |
| **ATTRIBUTABLE TO:** | | |
| Owners of the Company | **56,357** | 105,258 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and short term placements | 14 | **949,355** | 1,000,378 |
| Placements with banks and financial institutions maturing after one month but not more than twelve months | 15 | **10,000** | - |
| Loans and advances and receivables | 16 | **4,971,615** | 4,993,186 |
| Held-to-collect debt securities at amortised cost | 17 | **69,128** | 69,526 |
| Investment properties | 18 | **25,170** | 24,800 |
| Property and equipment | 19 | **25,099** | 24,788 |
| Land held under finance leases | 20 | **36,436** | 37,113 |
| Right-of-use assets | | **61,041** | 47,893 |
| Deferred tax assets | | **15,110** | 15,429 |
| Tax recoverable | | **10,308** | 1,173 |
| Intangible assets | | **486** | 486 |
| Other assets | 21 | **58,244** | 126,790 |
| **TOTAL ASSETS** | | **6,231,992** | 6,341,562 |
| **EQUITY AND LIABILITIES** | | | |
| **LIABILITIES** | | | |
| Deposits and balances of banks and other financial institutions at amortised cost | | **-** | 100,000 |
| Customer deposits at amortised cost | 22 | **4,363,012** | 4,293,698 |
| Lease liabilities | | **62,668** | 47,747 |
| Current tax payable | | **2,789** | 53,083 |
| Deferred tax liabilities | | **5,972** | 6,000 |
| Other liabilities | 21 | **144,982** | 194,317 |
| **TOTAL LIABILITIES** | | **4,579,423** | 4,694,845 |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | | |
| Share capital | 23 | **671,038** | 671,038 |
| Reserves | | **981,531** | 975,679 |
| **TOTAL EQUITY** | | **1,652,569** | 1,646,717 |
| **TOTAL EQUITY AND LIABILITIES** | | **6,231,992** | 6,341,562 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | **Share capital HK$'000** | **Retained profits HK$'000** | **Total HK$'000** |
|---|---|---|---|
| As at 1 January 2023 | **671,038** | **975,679** | **1,646,717** |
| Profit for the period | **-** | **56,357** | **56,357** |
| Other comprehensive income | **-** | **-** | **-** |
| Dividends declared | **-** | **(50,505)** | **(50,505)** |
| As at 30 June 2023 (Unaudited) | **671,038** | **981,531** | **1,652,569** |

| | Share capital HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|
| As at 1 January 2022 | 671,038 | 980,953 | 1,651,991 |
| Profit for the period | - | 105,258 | 105,258 |
| Other comprehensive income | - | - | - |
| Dividends declared | - | (100,769) | (100,769) |
| As at 30 June 2022 (Unaudited) | 671,038 | 985,442 | 1,656,480 |
| Profit for the period | - | 68,294 | 68,294 |
| Other comprehensive income | - | - | - |
| Dividends declared | - | (78,057) | (78,057) |
| As at 31 December 2022 (Audited) | 671,038 | 975,679 | 1,646,717 |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | For the six months ended 30 June 2023 (Unaudited) HK$'000 | 2022 (Unaudited) HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **67,420** | 126,118 |
| Adjustments for: | | | |
| Depreciation of property and equipment and land held under finance leases | 10 | **3,921** | 4,834 |
| Depreciation of right-of-use assets | 10 | **22,609** | 21,488 |
| Other interest expenses | 7 | **791** | 569 |
| Gain on termination of leases | 9 | **-** | (684) |
| Net losses on disposal of property and equipment | 9 | **4** | 2 |
| Decrease in credit loss expenses for loans and advances and receivables | | **(7,048)** | (5,816) |
| Decrease in credit loss expenses for held-to-collect debt securities at amortised cost and bank placements | | **(3)** | (1) |
| (Increase)/decrease in fair value of investment properties | | **(370)** | 127 |
| Payment of dismantling cost | | **(176)** | - |
| Profits tax paid | | **(70,201)** | - |
| Operating profit before changes in operating assets and liabilities | | **16,947** | 146,637 |
| Decrease in operating assets: | | | |
| Decrease in loans and advances and receivables | | **28,619** | 200,863 |
| Decrease/(increase) in held-to-collect debt securities at amortised cost | | **398** | (3) |
| Decrease/(increase) in other assets | | **68,546** | (143,645) |
| | | **97,563** | 57,215 |
| Decrease in operating liabilities: | | | |
| Decrease in deposits and balances of banks and other financial institutions at amortised cost | | **(100,000)** | - |
| Increase/(decrease) in customer deposits at amortised cost | | **69,314** | (407,336) |
| (Decrease)/increase in other liabilities | | **(49,284)** | 131,183 |
| | | **(79,970)** | (276,153) |
| Net cash inflow/(outflow) from operating activities | | **34,540** | (72,301) |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | For the six months ended 30 June 2023 (Unaudited) HK$'000 | 2022 (Unaudited) HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of property and equipment | 19 | **(3,559)** | (501) |
| Net cash outflow from investing activities | | **(3,559)** | (501) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayment of lease liabilities | | **(21,502)** | (21,390) |
| Dividends paid on shares | | **(50,505)** | (100,769) |
| Net cash outflow from financing activities | | **(72,007)** | (122,159) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(41,026)** | (194,961) |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD** | | **1,000,396** | 1,161,505 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | | **959,370** | 966,544 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and short term placements repayable on demand | | **429,315** | 447,335 |
| Money at call and short notice with an original maturity within three months | | **520,055** | 498,643 |
| Placements with banks and financial institutions with an original maturity within three months | | **10,000** | 20,566 |
| | | **959,370** | 966,544 |
| **OPERATIONAL CASH FLOWS FROM INTEREST** | | | |
| Interest paid | | **(74,433)** | (22,001) |
| Interest received | | **353,572** | 346,166 |

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 1. CORPORATE AND GROUP INFORMATION

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

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

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

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

| Name | Issued ordinary share capital HK$ | Percentage of equity attributable to the Company Direct % | Indirect % | Principal activities |
|---|---|---|---|---|
| Public Financial Limited | 10,100,000 | 100 | - | Investment holding |
| Public Securities Limited | 10,000,000 | - | 100 | Securities brokerage |
| Public Securities (Nominees) Limited | 10,000 | 100 | - | Provision of nominee services |

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in compliance with the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority ("HKMA") and in accordance with the same accounting policies adopted in the Company's 2022 annual financial statements, except for the changes in accounting policies as set out in note 5 below.

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

The financial information relating to the year ended 31 December 2022 that is included in the 2023 interim financial statements as comparative information does not constitute the Company'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:

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

The Company's external auditors have reported on the 2022 annual financial statements. The Independent Auditor's Report was unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 3. BASIS OF CONSOLIDATION

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

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

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

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

(ii) rights arising from other contractual arrangements; and

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

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

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

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 3. BASIS OF CONSOLIDATION (Continued)

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 2023** Total assets (Unaudited) HK$'000 | **30 June 2023** Total equity (Unaudited) HK$'000 | 31 December 2022 Total assets (Audited) HK$'000 | 31 December 2022 Total equity (Audited) HK$'000 | Principal activities |
|---|---|---|---|---|---|
| Public Financial Limited | **10,101** | **10,101** | 10,101 | 10,101 | Investment holding |
| Public Securities Limited | **278,133** | **239,456** | 341,950 | 249,408 | Securities brokerage |
| Public Securities (Nominees) Limited | **1,119** | **1,115** | 1,114 | 1,111 | Provision of nominee services |

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

## 4. BASIS OF CAPITAL DISCLOSURES

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

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

The computation of the total capital ratio and other regulatory capital ratios is based on the solo basis of the Company for regulatory reporting purpose. No subsidiary will be consolidated for capital adequacy ratio computation as the subsidiaries do not satisfy the criteria as stipulated in the Banking (Capital) Rules (the "Capital Rules") issued by the HKMA.

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

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

## 5. ACCOUNTING POLICIES

### Changes in accounting policies and disclosures

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

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

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

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

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

## 5. ACCOUNTING POLICIES (Continued)

### Changes in accounting policies and disclosures (Continued)

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

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

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

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

## 5. ACCOUNTING POLICIES (Continued)

### Issued but not yet effective HKFRSs

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

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

1 *No mandatory effective date yet determined but available for adoption*
2 *Effective for annual periods beginning on or after 1 January 2024*

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

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

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

## 5. ACCOUNTING POLICIES (Continued)

### Issued but not yet effective HKFRSs (Continued)

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

## 6. SEGMENT INFORMATION

### Operating segment information

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

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

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

- other businesses segment comprises mainly the letting of investment properties.

## 6. SEGMENT INFORMATION (Continued)

### Operating segment information (Continued)

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

| | Personal and commercial lending businesses | | Stockbroking | | Other businesses | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **For the six months ended 30 June 2023 (Unaudited) HK$'000** | For the six months ended 30 June 2022 (Unaudited) HK$'000 | **For the six months ended 30 June 2023 (Unaudited) HK$'000** | For the six months ended 30 June 2022 (Unaudited) HK$'000 | **For the six months ended 30 June 2023 (Unaudited) HK$'000** | For the six months ended 30 June 2022 (Unaudited) HK$'000 | **For the six months ended 30 June 2023 (Unaudited) HK$'000** | For the six months ended 30 June 2022 (Unaudited) HK$'000 |
| **Segment revenue** | | | | | | | | |
| External: | | | | | | | | |
| Net interest income/ (expense) | **255,913** | 319,765 | **(1,523)** | (61) | **-** | - | **254,390** | 319,704 |
| Fees and commission income | **40,345** | 36,576 | **38,155** | 17,287 | **-** | - | **78,500** | 53,863 |
| Other operating income/ (expense) | **157** | 758 | **(23)** | 223 | **395** | 395 | **529** | 1,376 |
| Operating income | **296,415** | 357,099 | **36,609** | 17,449 | **395** | 395 | **333,419** | 374,943 |
| Operating profit/ (loss) after credit loss expenses before tax | **43,255** | 117,165 | **23,878** | 9,159 | **287** | (206) | **67,420** | 126,118 |
| Tax | | | | | | | **(11,063)** | (20,860) |
| **Profit for the period** | | | | | | | **56,357** | 105,258 |
| **Other segment information** | | | | | | | | |
| Depreciation of property and equipment and land held under finance leases | **(3,921)** | (4,834) | **-** | - | **-** | - | **(3,921)** | (4,834) |
| Depreciation of right-of-use assets | **(22,609)** | (21,488) | **-** | - | **-** | - | **(22,609)** | (21,488) |
| Changes in fair value of investment properties | **-** | - | **-** | - | **370** | (127) | **370** | (127) |
| Credit loss expenses | **(58,827)** | (46,113) | **-** | - | **-** | - | **(58,827)** | (46,113) |
| Net losses on disposal of property and equipment | **(4)** | (2) | **-** | - | **-** | - | **(4)** | (2) |

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 6. SEGMENT INFORMATION (Continued)

### Operating segment information (Continued)

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

| | **Personal and commercial lending businesses** | | **Stockbroking** | | **Other businesses** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
| Segment assets other than intangible assets | **5,881,851** | 5,937,720 | **299,067** | 361,954 | **25,170** | 24,800 | **6,206,088** | 6,324,474 |
| Intangible assets | **-** | - | **486** | 486 | **-** | - | **486** | 486 |
| Segment assets | **5,881,851** | 5,937,720 | **299,553** | 362,440 | **25,170** | 24,800 | **6,206,574** | 6,324,960 |
| Unallocated assets: Deferred tax assets and tax recoverable | | | | | | | **25,418** | 16,602 |
| **Total assets** | | | | | | | **6,231,992** | 6,341,562 |
| Segment liabilities | **4,514,331** | 4,522,531 | **56,104** | 113,004 | **227** | 227 | **4,570,662** | 4,635,762 |
| Unallocated liabilities: Deferred tax liabilities and tax payable | | | | | | | **8,761** | 59,083 |
| **Total liabilities** | | | | | | | **4,579,423** | 4,694,845 |
| **Other segment information** | | | | | | | | |
| Additions to non-current assets - capital expenditure | **3,559** | 3,731 | **-** | - | **-** | - | **3,559** | 3,731 |

### Geographical information

Over 90% (2022: over 90%) of the Group's operating income, profit before tax, assets, liabilities, off-balance sheet commitments and exposures are derived from operations carried out in Hong Kong. Accordingly, no geographical segment information is presented in the interim financial statements.

### Operating income or revenue from major customers

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

## 7. INTEREST INCOME AND EXPENSE

| | For the six months ended 30 June 2023 (Unaudited) HK$'000 | 2022 (Unaudited) HK$'000 |
|---|---|---|
| Interest income from: | | |
| Loans and advances and receivables | **342,912** | 342,062 |
| Short term placements and placements with banks | **7,960** | 504 |
| Held-to-collect debt securities at amortised cost | **1,074** | 3 |
| | **351,946** | 342,569 |
| Interest expense on: | | |
| Deposits from banks and financial institutions | **852** | - |
| Deposits from customers | **94,017** | 22,149 |
| Bank loans | **1,896** | 147 |
| Others | **791** | 569 |
| | **97,556** | 22,865 |

Interest income and interest expense for the six months ended 30 June 2023, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss ("FVPL"), amounted to HK$351,946,000 and HK$97,556,000 (2022: HK$342,569,000 and HK$22,865,000) respectively.

## 8. FEES AND COMMISSION INCOME

| | For the six months ended 30 June 2023 (Unaudited) HK$'000 | 2022 (Unaudited) HK$'000 |
|---|---|---|
| Fees and commission income: | | |
| Personal and commercial lending | **40,345** | 36,576 |
| Stockbroking | **38,155** | 17,287 |
| | **78,500** | 53,863 |

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

## 9. OTHER OPERATING INCOME

| | For the six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Gross rental income | **398** | 398 |
| Less: Direct operating expenses | **(3)** | (3) |
| Net rental income | **395** | 395 |
| Net losses on disposal of property and equipment | **(4)** | (2) |
| Gain on termination of leases | **-** | 684 |
| Government subsidies | **-** | 240 |
| Others | **138** | 59 |
| | **529** | 1,376 |

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

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

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

## 10. OPERATING EXPENSES

| | For the six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Staff costs: | | |
| Salaries and other staff costs | **128,812** | 125,586 |
| Pension contributions | **6,845** | 6,201 |
| Less: Forfeited contributions | **(112)** | (20) |
| Net contribution to retirement benefit schemes | **6,733** | 6,181 |
| | **135,545** | 131,767 |
| Other operating expenses: | | |
| Depreciation of right-of-use assets | **22,609** | 21,488 |
| Depreciation of property and equipment and land held under finance leases | **3,921** | 4,834 |
| Administrative and general expenses | **16,895** | 16,403 |
| Others | **28,572** | 28,093 |
| Operating expenses before changes in fair value of investment properties | **207,542** | 202,585 |

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

## 11. CREDIT LOSS EXPENSES

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

| | For the six months ended 30 June 2023 (Unaudited) | | | |
|---|---|---|---|---|
| | 12-month expected credit loss (Stage 1) HK$'000 | Lifetime expected credit loss not credit impaired (Stage 2) HK$'000 | Lifetime expected credit loss credit impaired (Stage 3) HK$'000 | Total HK$'000 |
| Net charge for/(write-back of) credit loss expenses: | | | | |
| - loans and advances | **(3,653)** | **1,784** | **60,762** | **58,893** |
| - accrued interest and other receivables | **(65)** | **-** | **-** | **(65)** |
| - cash and short term placements | **(3)** | **-** | **-** | **(3)** |
| - placements with banks and financial institution | **-** | **-** | **-** | **-** |
| - held-to-collect debt securities at amortised cost | **-** | **-** | **-** | **-** |
| - loan commitments | **2** | **-** | **-** | **2** |
| | **(3,719)** | **1,784** | **60,762** | **58,827** |

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 11. CREDIT LOSS EXPENSES (Continued)

| | For the six months ended 30 June 2022 (Unaudited) | | | |
|---|---|---|---|---|
| | 12-month expected credit loss (Stage 1) HK$'000 | Lifetime expected credit loss not credit impaired (Stage 2) HK$'000 | Lifetime expected credit loss credit impaired (Stage 3) HK$'000 | Total HK$'000 |
| Net charge for/(write-back of) credit loss expenses: | | | | |
| - loans and advances | (13,168) | 1,525 | 57,912 | 46,269 |
| - accrued interest and other receivables | (145) | - | - | (145) |
| - cash and short term placements | (2) | - | - | (2) |
| - placements with banks and financial institution | 1 | | | 1 |
| - held-to-collect debt securities at amortised cost | - | - | - | - |
| - loan commitments | (10) | - | - | (10) |
| | (13,324) | 1,525 | 57,912 | 46,113 |

## 12. TAX

| | For the six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Current tax charge | **10,772** | 19,313 |
| Deferred tax charge, net | **291** | 1,547 |
| | **11,063** | 20,860 |

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

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

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| | **2023** | | 2022 | |
| | **(Unaudited)** | | (Unaudited) | |
| | **HK$'000** | **%** | HK$'000 | % |
| Profit before tax | **67,420** | | 126,118 | |
| Tax at the applicable tax rate | **11,124** | **16.5** | 20,809 | 16.5 |
| Estimated tax effect of net (income)/expenses that is/are not (taxable)/deductible | **(61)** | **(0.1)** | 51 | - |
| Tax charge at the Group's effective rate | **11,063** | **16.4** | 20,860 | 16.5 |

## 13. DIVIDENDS

### (a) Dividends attributable to the interim period

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | HK cents per ordinary share | | **HK$'000** | HK$'000 |
| Interim dividend | **11.223** | 30.161 | **29,045** | 78,057 |

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

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

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | HK cents per ordinary share | | **HK$'000** | HK$'000 |
| Final dividend in respect of the previous year | **19.515** | 38.937 | **50,505** | 100,769 |

## 14. CASH AND SHORT TERM PLACEMENTS

| | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
|---|---|---|
| Cash and placements with banks and financial institutions | **429,315** | 544,122 |
| Money at call and short notice | **520,055** | 456,274 |
| Gross cash and short term placements | **949,370** | 1,000,396 |
| Less: Impairment allowances collectively assessed | | |
| As at 1 January 2023 and 2022 | **(18)** | (18) |
| Credit loss expenses released to the consolidated income statement during the period/year | **3** | - |
| | **(15)** | (18) |
| Cash and short term placements | **949,355** | 1,000,378 |

Over 90% (31 December 2022: over 90%) of the placements were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's Investors Service ("Moody's"), an external credit agency.

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

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

| | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
|---|---|---|
| Gross placements with banks and financial institutions | **10,000** | - |
| Less: Impairment allowances collectively assessed | | |
| As at 1 January 2023 and 2022 | **-** | - |
| Credit loss expenses charged to the consolidated income statement during the period/year | **-** | - |
| | **-** | - |
| Placements with banks and financial institutions | **10,000** | - |

Over 90% (31 December 2022: Nil) 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 placement with banks and financial institutions and no impairment allowances for such placements accordingly.

## 16. LOANS AND ADVANCES AND RECEIVABLES

| | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
|---|---|---|
| Loans and advances to customers | **5,063,574** | 5,090,238 |
| Accrued interest | **34,190** | 36,145 |
| Gross loans and advances and receivables | **5,097,764** | 5,126,383 |
| Less: Impairment allowances | | |
| - specifically assessed | **(34,677)** | (39,791) |
| - collectively assessed | **(91,472)** | (93,406) |
| | **(126,149)** | (133,197) |
| Loans and advances and receivables | **4,971,615** | 4,993,186 |

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

Loans and advances and receivables are summarised as follows:

| | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
|---|---|---|
| Neither past due nor impaired loans and advances and receivables | **4,843,918** | 4,837,268 |
| Past due but not impaired loans and advances and receivables | **179,510** | 215,556 |
| Credit impaired loans and advances | **73,870** | 73,406 |
| Credit impaired receivables | **466** | 153 |
| Gross loans and advances and receivables | **5,097,764** | 5,126,383 |

## 16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

About 35% (31 December 2022: about 35%) of "Neither past due nor impaired loans and advances and receivables" were property mortgage loans and taxi financing loans secured by customer deposits, properties, taxi licences and vehicles.

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

| | **30 June 2023 (Unaudited)** | | 31 December 2022 (Audited) | |
|---|---|---|---|---|
| | **Gross amount HK$'000** | **Percentage of total loans and advances %** | Gross amount HK$'000 | Percentage of total loans and advances % |
| Loans and advances overdue for: | | | | |
| Six months or less but over three months | **44,874** | **0.89** | 44,393 | 0.87 |
| One year or less but over six months | **8,742** | **0.17** | 2,768 | 0.06 |
| Over one year | **-** | **-** | - | - |
| Loans and advances overdue for more than three months | **53,616** | **1.06** | 47,161 | 0.93 |
| Rescheduled loans and advances overdue for three months or less | **17,693** | **0.35** | 21,832 | 0.43 |
| Impaired loans and advances overdue for three months or less | **2,561** | **0.05** | 4,413 | 0.08 |
| Total overdue and impaired loans and advances | **73,870** | **1.46** | 73,406 | 1.44 |

## 16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

### (a) (ii) Ageing analysis of overdue and impaired other receivables and accrued interest

| | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
|---|---|---|
| Other receivables and accrued interest overdue for: | | |
| Six months or less but over three months | **101** | 125 |
| One year or less but over six months | **365** | 28 |
| Over one year | **-** | - |
| Other receivables and accrued interest overdue for more than three months | **466** | 153 |
| Impaired other receivables and accrued interest overdue for three months or less | **-** | - |
| Total overdue and impaired other receivables and accrued interest | **466** | 153 |

Impaired loans and advances and receivables are individually determined to be impaired after considering overdue ageing analysis and other qualitative factors such as bankruptcy proceedings and individual voluntary arrangements.

## 16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

| | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
|---|---|---|
| **(i) Analysis of overdue loans and advances and receivables** | | |
| Loans and advances and receivables overdue for more than three months | **54,082** | 47,314 |
| Impairment allowances specifically assessed | **27,031** | 29,073 |
| Current market value and fair value of collateral | **20,640** | 17,040 |
| **(ii) Analysis of impaired loans and advances and receivables** | | |
| Impaired loans and advances and receivables | **74,336** | 73,559 |
| Impairment allowances specifically assessed | **34,677** | 39,791 |
| Current market value and fair value of collateral | **20,640** | 17,040 |

Over 90% (31 December 2022: over 90%) of the Group's gross loans and advances and receivables were derived from operations carried out in Hong Kong. Accordingly, no geographical segment information of gross loans and advances and receivables is presented herein.

## 16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

| | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
|---|---|---|
| Current market value and fair value of collateral held against the covered portion of overdue loans and advances | **20,640** | 17,040 |
| Covered portion of overdue loans and advances | **15,144** | 7,837 |
| Uncovered portion of overdue loans and advances | **38,472** | 39,324 |

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.

## 16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

### (d) Repossessed assets

There was no repossessed asset of the Group as at 30 June 2023. (31 December 2022: Nil).

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

| | **30 June 2023 (Unaudited)** | | 31 December 2022 (Audited) | |
|---|---|---|---|---|
| | **Gross amount HK$'000** | **Percentage of total loans and advances %** | Gross amount HK$'000 | Percentage of total loans and Advances % |
| Loans and advances overdue for three months or less | **179,035** | **3.5** | 215,040 | 4.2 |
| Accrued interest and other receivables overdue for three months or less | **475** | | 516 | |

## 16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

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

| | 30 June 2023 (Unaudited) | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| Gross loans and advances and receivables as at 1 January 2023 | **5,014,189** | **38,635** | **73,559** | **5,126,383** |
| New loans/financing originated | **1,648,597** | **-** | **-** | **1,648,597** |
| Loans/financing derecognised or repaid during the period (other than write-offs) | **(1,555,316)** | **(4,595)** | **(3,709)** | **(1,563,620)** |
| Transfer to 12-month expected credit loss (Stage 1) | **10,054** | **(1,518)** | **(8,536)** | **-** |
| Transfer to lifetime expected credit loss not credit impaired (Stage 2) | **(39,178)** | **39,763** | **(585)** | **-** |
| Transfer to lifetime expected credit loss credit impaired (Stage 3) | **(97,424)** | **(29,779)** | **127,203** | **-** |
| Total transfer between stages | **(126,548)** | **8,466** | **118,082** | **-** |
| Write-offs | **-** | **-** | **(113,596)** | **(113,596)** |
| As at 30 June 2023 | **4,980,922** | **42,506** | **74,336** | **5,097,764** |
| Arising from: | | | | |
| Loans and advances | **4,947,198** | **42,506** | **73,870** | **5,063,574** |
| Accrued interest and other receivables | **33,724** | **-** | **466** | **34,190** |
| | **4,980,922** | **42,506** | **74,336** | **5,097,764** |

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

## 16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

| | 31 December 2022 (Audited) | | | |
|---|---|---|---|---|
| | Stage 1 HK$'000 | Stage 2 HK$'000 | Stage 3 HK$'000 | Total HK$'000 |
| Gross loans and advances and receivables as at 1 January 2022 | 5,159,220 | 39,747 | 61,662 | 5,260,629 |
| New loans/financing originated | 2,552,367 | - | - | 2,552,367 |
| Loans/financing derecognised or repaid during the year (other than write-offs) | (2,461,623) | (6,252) | (9,436) | (2,477,311) |
| Transfer to 12-month expected credit loss (Stage 1) | 7,290 | (1,776) | (5,514) | - |
| Transfer to lifetime expected credit loss not credit impaired (Stage 2) | (37,162) | 37,546 | (384) | - |
| Transfer to lifetime expected credit loss credit impaired (Stage 3) | (205,903) | (30,630) | 236,533 | - |
| Total transfer between stages | (235,775) | 5,140 | 230,635 | - |
| Write-offs | - | - | (209,302) | (209,302) |
| As at 31 December 2022 | 5,014,189 | 38,635 | 73,559 | 5,126,383 |
| Arising from: | | | | |
| Loans and advances | 4,978,197 | 38,635 | 73,406 | 5,090,238 |
| Accrued interest and other receivables | 35,992 | - | 153 | 36,145 |
| | 5,014,189 | 38,635 | 73,559 | 5,126,383 |

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

## 16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

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

| | 30 June 2023 (Unaudited) | | | |
|---|---|---|---|---|
| | **Stage 1 HK$'000** | **Stage 2 HK$'000** | **Stage 3 HK$'000** | **Total HK$'000** |
| **Internal rating grades:** | | | | |
| **Performing** | | | | |
| Pass | **4,943,386** | **-** | **-** | **4,943,386** |
| Special Mention | **37,536** | **42,506** | **-** | **80,042** |
| **Non-performing** | | | | |
| Substandard | **-** | **-** | **61,439** | **61,439** |
| Doubtful | **-** | **-** | **9,433** | **9,433** |
| Loss | **-** | **-** | **3,464** | **3,464** |
| **Total** | **4,980,922** | **42,506** | **74,336** | **5,097,764** |

| | 31 December 2022 (Audited) | | | |
|---|---|---|---|---|
| | Stage 1 HK$'000 | Stage 2 HK$'000 | Stage 3 HK$'000 | Total HK$'000 |
| **Internal rating grades:** | | | | |
| **Performing** | | | | |
| Pass | 4,968,504 | - | - | 4,968,504 |
| Special Mention | 45,685 | 38,635 | - | 84,320 |
| **Non-performing** | | | | |
| Substandard | - | - | 62,211 | 62,211 |
| Doubtful | - | - | 3,317 | 3,317 |
| Loss | - | - | 8,031 | 8,031 |
| **Total** | 5,014,189 | 38,635 | 73,559 | 5,126,383 |

## 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 2023 (Unaudited) | | | |
|---|---|---|---|---|
| | **Stage 1 HK$'000** | **Stage 2 HK$'000** | **Stage 3 HK$'000** | **Total HK$'000** |
| As at 1 January 2023 | **71,421** | **21,985** | **39,791** | **133,197** |
| New loans/financing originated | **36,986** | **-** | **-** | **36,986** |
| Loans/financing derecognised or repaid during the period (other than write-offs) | **(36,258)** | **(2,483)** | **(49,623)** | **(88,364)** |
| Transfer to 12-month expected credit loss (Stage 1) | **2,374** | **(567)** | **(1,807)** | **-** |
| Transfer to lifetime expected credit loss not credit impaired (Stage 2) | **(1,784)** | **2,011** | **(227)** | **-** |
| Transfer to lifetime expected credit loss credit impaired (Stage 3) | **(2,793)** | **(17,874)** | **20,667** | **-** |
| Total transfer between stages | **(2,203)** | **(16,430)** | **18,633** | **-** |
| Impact on period end expected credit loss of exposures transferred between stages during the period | **(1,285)** | **20,697** | **79,992** | **99,404** |
| Movements due to changes in credit risk | **(958)** | **-** | **11,760** | **10,802** |
| Recoveries | **-** | **-** | **47,720** | **47,720** |
| Write-offs | **-** | **-** | **(113,596)** | **(113,596)** |
| As at 30 June 2023 | **67,703** | **23,769** | **34,677** | **126,149** |
| Arising from: | | | | |
| Loans and advances | **66,559** | **23,769** | **34,677** | **125,005** |
| Accrued interest and other receivables | **1,144** | **-** | **-** | **1,144** |
| | **67,703** | **23,769** | **34,677** | **126,149** |

## 16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

| | 31 December 2022 (Audited) | | | |
|---|---|---|---|---|
| | Stage 1 HK$'000 | Stage 2 HK$'000 | Stage 3 HK$'000 | Total HK$'000 |
| As at 1 January 2022* | 82,963 | 20,693 | 32,257 | 135,913 |
| New loans/financing originated | 56,470 | - | - | 56,470 |
| Loans/financing derecognised or repaid during the year (other than write-offs) | (57,108) | (3,627) | (99,679) | (160,414) |
| Transfer to 12-month expected credit loss (Stage 1) | 1,804 | (600) | (1,204) | - |
| Transfer to lifetime expected credit loss not credit impaired (Stage 2) | (1,894) | 1,974 | (80) | - |
| Transfer to lifetime expected credit loss credit impaired (Stage 3) | (7,046) | (16,164) | 23,210 | - |
| Total transfer between stages | (7,136) | (14,790) | 21,926 | - |
| Impact on year end expected credit loss of exposures transferred between stages during the year | (690) | 19,709 | 185,920 | 204,939 |
| Movements due to changes in credit risk | (3,078) | - | 11,633 | 8,555 |
| Recoveries | - | - | 97,036 | 97,036 |
| Write-offs | - | - | (209,302) | (209,302) |
| As at 31 December 2022 | 71,421 | 21,985 | 39,791 | 133,197 |
| Arising from: | | | | |
| Loans and advances | 70,212 | 21,985 | 39,791 | 131,988 |
| Accrued interest and other receivables | 1,209 | - | - | 1,209 |
| | 71,421 | 21,985 | 39,791 | 133,197 |

* *Effective from 1 January 2022, the ECL allowances on off-balance sheet credit exposures, including loan commitments, have been reclassified and included under other liabilities in note 21 to the interim financial statements.*

## 16. LOANS AND ADVANCES AND RECEIVABLES (Continued)

### (g) Finance lease receivables

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

| | **Undiscounted lease payments** | | **Net investment in finance leases** | |
|---|---|---|---|---|
| | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
| Amounts receivable under finance leases: | | | | |
| Within one year | **80,873** | 77,562 | **58,018** | 56,304 |
| Over one year but within two years | **65,178** | 62,485 | **45,062** | 43,676 |
| Over two years but within three years | **51,731** | 49,838 | **33,217** | 32,543 |
| Over three years but within four years | **46,964** | 45,826 | **29,407** | 29,441 |
| Over four years but within five years | **46,552** | 45,133 | **29,835** | 29,582 |
| Over five years | **652,724** | 642,443 | **520,465** | 518,898 |
| | **944,022** | 923,287 | **716,004** | 710,444 |
| Less: Unearned finance income | **(228,018)** | (212,843) | | |
| Net investment in finance leases | **716,004** | 710,444 | | |

The Group has entered into finance lease arrangements with customers in respect of motor vehicles and equipment. The terms of the finance leases entered into range from 1 to 25 years.

## 17. HELD-TO-COLLECT DEBT SECURITIES AT AMORTISED COST

| | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
|---|---|---|
| Unlisted: | | |
| Treasury bills (including Exchange Fund Bills) | **69,135** | 69,533 |
| Less: Impairment allowances collectively assessed | | |
| As at 1 January 2023 and 2022 | **(7)** | (4) |
| Credit loss expenses charged to the consolidated income statement during the period/year | **-** | (3) |
| | **(7)** | (7) |
| Held-to-collect debt securities at amortised cost | **69,128** | 69,526 |
| Analysed by type of issuers: | | |
| - Central governments | **69,128** | 69,526 |

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

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

All exposures attributed to the held-to-collect debt securities at amortised cost were rated with a grading of Aa3 based on the credit rating of Moody's, an external credit agency, as at 30 June 2023 and 31 December 2022.

## 18. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| At valuation: | |
| As at 1 January 2022 | 25,436 |
| Changes in fair value recognised in the consolidated income statement | (636) |
| As at 31 December 2022 and 1 January 2023 (Audited) | **24,800** |
| Changes in fair value recognised in the consolidated income statement | **370** |
| As at 30 June 2023 (Unaudited) | **25,170** |

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

All investment properties were classified under Level 3 in the fair value hierarchy. During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (31 December 2022: Nil). The Group has assessed that the highest and best use of its properties did not differ from their existing use.

As at 30 June 2023, investment properties were revalued according to the valuation assessed by C S Surveyors Limited, a firm of independent professionally qualified valuers. Accounts 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.

## 18. INVESTMENT PROPERTIES (Continued)

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

| | **30 June 2023 (Unaudited)** | | 31 December 2022 (Audited) | |
|---|---|---|---|---|
| | **Range HK$** | **Weighted average HK$** | Range HK$ | Weighted average HK$ |
| Price per square metre | **79,000 to 80,000** | **80,000** | 78,000 to 79,000 | 79,000 |

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 24(a) to the interim financial statements.

## 19. PROPERTY AND EQUIPMENT

| | Buildings HK$'000 | Leasehold improvements, furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Cost: | | | | |
| As at 1 January 2022 | 6,247 | 131,706 | 1,695 | 139,648 |
| Additions | - | 3,731 | - | 3,731 |
| Disposals/write-off | - | (5,612) | - | (5,612) |
| As at 31 December 2022 and 1 January 2023 (Audited) | **6,247** | **129,825** | **1,695** | **137,767** |
| Additions | **-** | **3,559** | **-** | **3,559** |
| Disposals/write-off | **-** | **(2,777)** | **-** | **(2,777)** |
| As at 30 June 2023 (Unaudited) | **6,247** | **130,607** | **1,695** | **138,549** |
| Accumulated depreciation: | | | | |
| As at 1 January 2022 | 2,307 | 106,652 | 1,652 | 110,611 |
| Provided during the year | 124 | 7,831 | 22 | 7,977 |
| Disposals/write-off | - | (5,609) | - | (5,609) |
| As at 31 December 2022 and 1 January 2023 (Audited) | **2,431** | **108,874** | **1,674** | **112,979** |
| Provided during the period | **62** | **3,172** | **10** | **3,244** |
| Disposals/write-off | **-** | **(2,773)** | **-** | **(2,773)** |
| As at 30 June 2023 (Unaudited) | **2,493** | **109,273** | **1,684** | **113,450** |
| Net carrying amount: | | | | |
| As at 30 June 2023 (Unaudited) | **3,754** | **21,334** | **11** | **25,099** |
| As at 31 December 2022 (Audited) | 3,816 | 20,951 | 21 | 24,788 |

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

## 20. LAND HELD UNDER FINANCE LEASES

| | HK$'000 |
|---|---|
| Cost: | |
| As at 1 January 2022, 31 December 2022 and 1 January 2023 (Audited), and 30 June 2023 (Unaudited) | **60,623** |
| Accumulated depreciation and impairment: | |
| As at 1 January 2022 (Audited) | 22,157 |
| Depreciation provided during the year | 1,353 |
| As at 31 December 2022 and 1 January 2023 (Audited) | **23,510** |
| Depreciation provided during the period | **677** |
| As at 30 June 2023 (Unaudited) | **24,187** |
| Net carrying amount: | |
| As at 30 June 2023 (Unaudited) | **36,436** |
| As at 31 December 2022 (Audited) | 37,113 |

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.

## 21. OTHER ASSETS AND OTHER LIABILITIES

### Other assets

| | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
|---|---|---|
| Interest receivable from financial institutions | **484** | 156 |
| Other debtors, deposits and prepayments | **45,076** | 125,681 |
| Amount due from a fellow subsidiary | **600** | 953 |
| Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC") | **12,084** | - |
| | **58,244** | 126,790 |

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

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

### Other liabilities

| | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
|---|---|---|
| Creditors, accruals and interest payable* | **144,982** | 107,949 |
| Net amount of accounts payable to HKSCC | **-** | 86,368 |
| | **144,982** | 194,317 |

* *As at 30 June 2023, the balances also include the impairment allowances of HK$7,000 (31 December 2022: HK$5,000) on off-balance sheet credit exposures, including loan commitments.*

## 22. CUSTOMER DEPOSITS AT AMORTISED COST

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

## 23. SHARE CAPITAL

| | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
|---|---|---|
| Issued and fully paid: | | |
| 258,800,000 (2022: 258,800,000) ordinary shares | **671,038** | 671,038 |

## 24. LEASES

### (a) As lessor

The Group leases its investment properties as described in note 18 to the interim financial statements under operating lease arrangements with a lease term of 2 years.

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

| | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
|---|---|---|
| Within one year | **779** | 779 |
| Over one year but within two years | **152** | 550 |
| | **931** | 1,329 |

## 24. LEASES (Continued)

### (b) As lessee

The Group has entered into certain future lease arrangements with landlords with the terms of the leases range from 2 to 3 years. As at 30 June 2023 and 31 December 2022, the Group had total future lease payments for leases committed but not yet commenced falling due as follows:

| | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
|---|---|---|
| Within one year | **1,727** | 1,496 |
| In the second to fifth years, inclusive | **5,302** | 2,639 |
| | **7,029** | 4,135 |

## 25. OFF-BALANCE SHEET EXPOSURE

### Contingent liabilities and commitments

| | **30 June 2023 (Unaudited)** | | 31 December 2022 (Audited) | |
|---|---|---|---|---|
| | **Contractual amount HK$'000** | **Credit risk-weighted amount HK$'000** | Contractual amount HK$'000 | Credit risk-weighted amount HK$'000 |
| Capital commitments contracted for, but not provided in the consolidated statement of financial position: | | | | |
| - With an original maturity of not more than one year | **7,151** | **-** | 7,004 | - |
| Undrawn loan facilities with an original maturity of not more than one year or which are unconditionally cancellable, granted to: | | | | |
| - Customers | **21,740** | **-** | 10,752 | - |
| | **28,891** | **-** | 17,756 | - |

As at 30 June 2023 and 31 December 2022, the corresponding ECLs for the outstanding off-balance sheet exposures, including loan commitments under stage 1, amounted to HK$7,000 and HK$5,000 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 and commitments.

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

During the period, no derivative activities were transacted by the Group (2022: Nil).

## 26. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

***Liquid or/and very short term and variable rate financial instruments***
Liquid or/and very short term and variable rate financial instruments include loans and advances and receivables. As these financial instruments are liquid or having a short-term maturity or 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 and customer deposits. 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

There were no financial instruments carried at fair value at 30 June 2023 and 31 December 2022.

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

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

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

## 27. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The tables below show an analysis of financial assets and financial liabilities analysed by principal according to the periods that they are expected to be recovered or settled. There were no key off-balance sheet items as at 30 June 2023 and 31 December 2022.

| | 30 June 2023 (Unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Repayable on demand HK$'000 | Up to 1 month HK$'000 | Over 1 month but not more than 3 months HK$'000 | Over 3 months but not more than 12 months HK$'000 | Over 1 year but not more than 5 years HK$'000 | Over 5 years HK$'000 | Repayable within an indefinite period HK$'000 | Total HK$'000 |
| **Financial assets:** | | | | | | | | |
| Gross cash and short term placements | 429,315 | 520,055 | 10,000 | - | - | - | - | 959,370 |
| Gross placements with banks and financial institutions maturing after one month but not more than twelve months | - | - | - | - | - | - | - | - |
| Gross loans and advances and receivables | 17,064 | 217,369 | 375,227 | 1,239,572 | 1,716,143 | 1,458,519 | 73,870 | 5,097,764 |
| Gross held-to-collect debt securities at amortised cost | - | - | 29,854 | 39,281 | - | - | - | 69,135 |
| Other assets | - | 27,213 | - | - | - | - | 31,031 | 58,244 |
| Total financial assets | 446,379 | 764,637 | 415,081 | 1,278,853 | 1,716,143 | 1,458,519 | 104,901 | 6,184,513 |
| **Financial liabilities:** | | | | | | | | |
| Customer deposits at amortised cost | 47,796 | 640,923 | 2,128,458 | 1,544,927 | 908 | - | - | 4,363,012 |
| Lease liabilities | - | 3,472 | 6,789 | 26,375 | 26,032 | - | - | 62,668 |
| Other liabilities | 510 | 62,954 | 26,726 | 16,871 | 2,618 | - | 35,303 | 144,982 |
| Total financial liabilities | 48,306 | 707,349 | 2,161,973 | 1,588,173 | 29,558 | - | 35,303 | 4,570,662 |
| Net liquidity gap | 398,073 | 57,288 | (1,746,892) | (309,320) | 1,686,585 | 1,458,519 | 69,598 | 1,613,851 |

# NOTES TO INTERIM FINANCIAL STATEMENTS

## 27. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

| | 31 December 2022 (Audited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Repayable on demand HK$'000 | Up to 1 month HK$'000 | Over 1 month but not more than 3 months HK$'000 | Over 3 months but not more than 12 months HK$'000 | Over 1 year but not more than 5 years HK$'000 | Over 5 years HK$'000 | Repayable within an indefinite period HK$'000 | Total HK$'000 |
| **Financial assets:** | | | | | | | | |
| Gross cash and short term placements | 544,122 | 456,274 | - | - | - | - | - | 1,000,396 |
| Gross loans and advances and receivables | 22,862 | 219,090 | 363,497 | 1,252,694 | 1,709,724 | 1,485,110 | 73,406 | 5,126,383 |
| Gross held-to-collect debt securities at amortised cost | - | - | 59,620 | 9,913 | - | - | - | 69,533 |
| Other assets | - | 88,629 | - | - | - | - | 38,161 | 126,790 |
| Total financial assets | 566,984 | 763,993 | 423,117 | 1,262,607 | 1,709,724 | 1,485,110 | 111,567 | 6,323,102 |
| **Financial liabilities:** | | | | | | | | |
| Deposits and balances of banks and other financial institutions at amortised cost | - | 40,000 | 60,000 | - | - | - | - | 100,000 |
| Customer deposits at amortised cost | 53,892 | 888,159 | 2,012,835 | 1,332,762 | 6,050 | - | - | 4,293,698 |
| Lease liabilities | - | 3,363 | 6,855 | 20,329 | 17,200 | - | - | 47,747 |
| Other liabilities | 488 | 118,877 | 12,193 | 10,081 | 3,519 | - | 49,159 | 194,317 |
| Total financial liabilities | 54,380 | 1,050,399 | 2,091,883 | 1,363,172 | 26,769 | - | 49,159 | 4,635,762 |
| Net liquidity gap | 512,604 | (286,406) | (1,668,766) | (100,565) | 1,682,955 | 1,485,110 | 62,408 | 1,687,340 |

## 28. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's business activities comprise deposit taking and financing. These activities expose the Group to a variety of risks, mainly interest rate risk, market risk, credit risk, liquidity risk, operational risk, cyber security risk, climate risk and compliance risk. The Board reviews and approves 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 Board's oversight through the Risk Management Committee ("RMC"), a Board Committee which oversees the establishment of enterprise-wide risk management policies and processes. The RMC is assisted by the specific risk committees including the Assets and Liabilities Management Committee ("ALCO"), Operational Risk Management Committee ("ORMC"), Credit Committee, Anti-Money Laundering Committee and Compliance Working Group of the Company.

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

### Interest Rate Risk Management

Interest rate risk 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 and 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 the right to prepay or early repay one's assets or liabilities such that cash flows related to such financial contracts are altered.

## 28. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Interest Rate Risk Management (Continued)

The Board is ultimately responsible for management of IRRBB and defines the overall risk appetite for management of IRRBB. The RMC is 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 ALCO is 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 Department ("RMD") assesses, monitors and reports interest rate risk exposures against approved risk limits and key interest rate risk related matters (such as limit excesses) to the ALCO at least monthly, and escalates to the RMC and the Board 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 ALCO and RMC for the approval by the Board. Internal Audit Department performs independent reviews on the effectiveness of the IRRBB management system, including but not limited to the implementation/compliance of the approved policies, monitoring of risk limits, escalation of limit breaches and adequacy of IRRBB assessment methodology.

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

## 28. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Market Risk Management

**(a) Currency risk**

Currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk positions arise from foreign exchange dealings. All foreign exchange positions are managed by Accounts Department within limits approved by the Board.

The Group has limited foreign currency risk as the Group's assets and liabilities were mainly denominated in Hong Kong Dollars ("HKD") for the period ended 30 June 2023 and for the year ended 31 December 2022. Directors considered that currency risk was insignificant to the Group. Accordingly, no quantitative market risk disclosures for currency risk have been made.

**(b) Price risk**

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

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

## 28. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Credit Risk Management

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

The Group has a credit risk management process to measure, monitor and control credit risk. Its credit policy 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 Board or dedicated committees). The Group's loan exposures are concentrated in consumer financing, purchase of properties, property investment and transportation segment in Hong Kong; and such lendings are monitored and controlled within the approved concentration limits. Segregation of duties in key credit functions is in place to ensure separate credit control and monitoring. Management and recovery of problem credits are handled by an independent work-out team.

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and its capital resources. Its policy on connected lending exposure defines and states connected parties, statutory and applicable connected lending limits, types of connected transactions, 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 Department to evaluate the effectiveness of the credit review, approval and monitoring processes and to ensure that the established credit policies and procedures are complied with.

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

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

## 28. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Credit Risk Management (Continued)

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

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

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

The “Neither past due nor impaired loans and advances and receivables” are shown in note 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.

## 28. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity Risk Management

Liquidity risk is the risk that the Group cannot meet its current obligations. Major sources of liquidity risk of the Group are the early or unexpected withdrawals of deposits in cash outflow and the delay in cash inflow from loan repayments. To manage liquidity risk, the Group has established a liquidity risk management framework which incorporates liquidity risk 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 Board or committees delegated by the Board.

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

Accounts Department is responsible for the centralised implementation of the strategies and policies approved by the dedicated committees and the Board, and developing operational procedures and controls to ensure the compliance with the aforesaid policies and to minimise operational disruptions in case of a liquidity crisis.

## 28. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity Risk Management (Continued)

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

The liquidity risk related metrics include at least liquidity maintenance ratio (with internal risk tolerance higher than the statutory liquidity maintenance ratio); cash-flow mismatches under normal and different stress scenarios; concentration related limits of deposits and other funding sources, and maturity profile of major assets and liabilities (including on-balance sheet and off-balance sheet items). Systems and procedures are in place to measure and manage liquidity risk by cash-flow projections in both baseline and stressed scenarios arising from off-balance sheet exposures and contingent funding obligations. In baseline scenario, expected cash outflow is derived from the aforesaid exposures and obligations including 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' utilization and genuine drawdowns of the credit facilities. In stressed scenario, the utilization and drawdowns of credit facilities are expected to escalate to some extent.

The funding strategies of the Group are to (i) diversify funding sources for mitigating liquidity risk exposures; (ii) minimise disruptions due to operational issues such as transfer of liquidity across group entities; (iii) ensure contingency funding is available to the Group; and (iv) maintain sufficient liquidity cushion to meet critical liquidity needs such as loan commitments and deposit withdrawals in stressed situations. The Group has established concentration limits of funding sources taking into account the risk profile of the Group. For instance, intra-group funding and funding from the largest funding provider are restricted to be not more than 10% and 5% 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.

## 28. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity Risk Management (Continued)

Contingency funding plan is formulated to address liquidity needs at different stages including the mechanism for the detection of early warning signals of potential crisis at early stage and obtaining of emergency funding in bank-run scenario at later stage. Designated roles and responsibilities of the Crisis Management Team, departments and business units and their emergency contact information are documented clearly in the contingency funding plan as part of business continuity planning, and contingency funding measures are in place to set priorities of funding arrangements with counterparties, to set procedures for intraday liquidity risk management and intra-group funding support, to manage media relationship and to communicate with internal and external parties during a liquidity crisis. The stress-testing results are updated and reported to Senior Management regularly and the results such as survival period for positive cash-flow mismatches are used in contingency funding planning 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 cash and treasury bills issued by eligible central governments to address critical and emergent liquidity needs on intraday basis and over other different time horizons. The Group is not subject to particular collateral arrangements or requirements in contracts in case there is a credit rating downgrade of entities within the Group.

Apart from cash-flow projections under normal scenario to manage liquidity under different time horizons, different stress scenarios such as institution-specific stress scenario, the general market stress scenario and the combination of such scenarios with assumptions are set and reviewed by dedicated committees and approved by the Board. Under institution-specific stress scenario, loan repayments from some customers are assumed to be delayed. The projected cash inflow would be reduced by the amount of retail loan delinquencies. Regarding cash-outflow projection, part of undrawn loan facilities are not to be utilised by borrowers or honoured by the Group. The core deposits ratio would decrease as 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 treasury bills issued by eligible central governments to secure funding to address potential liquidity crisis. Liquidity stress-tests are conducted regularly (at least monthly) and the results are utilised for part of contingency funding plan or for providing insights to management about the latest liquidity position of the Group.

## 28. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity Risk Management (Continued)

***Regulatory liquidity ratio***

Pursuant to section 97H of the Hong Kong Banking Ordinance and Rule 7 of the Banking (Liquidity) Rules, the Company is required to comply with the liquidity maintenance ratio requirement.

| | For the six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | **(Unaudited)** | (Unaudited) |
| Average liquidity maintenance ratio | **113.8%** | 84.2% |

The average liquidity maintenance ratio is computed on a solo basis using the arithmetic mean of each calendar month's average liquidity maintenance ratio as reported in the return relating to the liquidity position submitted to the HKMA.

Liquidity exposures and funding needs are measured and assessed at the level of individual legal entities (i.e. the Company and its core operating subsidiaries). Pursuant to the HKMA/SFC's requirements, the transferability of liquidity of the Company 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.

### 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.

## 28. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Cyber Security Risk Management

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

### Climate risk management

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

## 28. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Capital Management

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

The Group's policy is to maintain a strong capital base to support the development of the Group's businesses and to meet the statutory capital adequacy ratio and other regulatory capital requirements. Capital is allocated to various business activities of the Group depending on the risks taken by each business 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 capital adequacy ratios of the Company are computed in accordance with the provisions of the Banking Ordinance relating to Basel III capital standards and the Capital Rules. The Company has adopted the standardised approach for the calculation of credit risk-weighted exposures, market risk-weighted exposures and operational risk-weighted exposures. The Company is granted an exemption by the HKMA for the calculation of market risk exposures which are immaterial to the Company.

| | **30 June 2023 (Unaudited)** | 31 December 2022 (Audited) |
|---|---|---|
| CET1 Capital Ratio | **28.7%** | 27.8% |
| Tier 1 Capital Ratio | **28.7%** | 27.8% |
| Total Capital Ratio | **29.7%** | 28.9% |

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

## 28. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Capital Management (Continued)

***Capital disclosures***

The components of capital base include the following items:

| | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
|---|---|---|
| CET1 capital instruments | **671,038** | 671,038 |
| Retained earnings | **721,924** | 684,664 |
| Disclosed reserves | **-** | - |
| CET1 capital before deduction | **1,392,962** | 1,355,702 |
| Deduct: | | |
| Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties) | **(9,237)** | (8,867) |
| Regulatory reserve for general banking risk | **-** | - |
| Deferred tax assets in excess of deferred tax liabilities | **(9,126)** | (9,417) |
| CET1 capital after deduction | **1,374,599** | 1,337,418 |
| Additional Tier 1 capital | **-** | - |
| Tier 1 capital after deductions | **1,374,599** | 1,337,418 |
| Reserve attributable to fair value gains | **4,157** | 3,990 |
| Regulatory reserve for general banking risk | **-** | - |
| Collective provisions | **46,506** | 46,361 |
| | **46,506** | 46,361 |
| Tier 2 capital | **50,663** | 50,351 |
| Capital base | **1,425,262** | 1,387,769 |
| Total risk weighted assets | **4,795,144** | 4,809,917 |

## 28. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Capital Management (Continued)

***Capital conservation buffer (CCB)***

The Company is subject to the 2.5% CCB ratio effective from 1 January 2019.

***Countercyclical capital buffer (CCyB)***

The CCyB ratio is an additional layer of CET1 Capital which takes effect as an extension of the Basel III CCB.

As at 30 June 2023, the Company 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:

| | | **30 June 2023 (Unaudited)** | | |
|---|---|---|---|---|
| **Jurisdiction ("J")** | **Applicable JCCyB ratio in effect %** | **Total RWA used in computation of CCyB ratio HK$'000** | **CCyB ratio %** | **CCyB amount HK$'000** |
| Hong Kong | **1.000** | **3,584,298** | **1.000** | **35,843** |

| | | 31 December 2022 (Audited) | | |
|---|---|---|---|---|
| Jurisdiction | Applicable JCCyB ratio in effect % | Total RWA used in computation of CCyB ratio HK$'000 | CCyB ratio % | CCyB amount HK$'000 |
| Hong Kong | 1.000 | 3,563,695 | 1.000 | 35,637 |

## 28. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Capital Management (Continued)

***Leverage ratio***

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

| | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
|---|---|---|
| Tier 1 Capital | **1,374,599** | 1,337,418 |
| Exposure Measure for Leverage Ratio | **6,017,813** | 6,064,239 |
| Leverage Ratio | **22.8%** | 22.1% |

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 2023 to be published in the Company's website at www.publicfinance.com.hk under "Regulatory Disclosures" on or before 30 September 2023.

***Principal subsidiaries and basis of consolidation***

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

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

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

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

## 28. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Capital Management (Continued)

***Capital instruments***

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

The disclosure will include the following information:

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

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

| | Note | **30 June 2023 (Unaudited) HK$'000** | 31 December 2022 (Audited) HK$'000 |
|---|---|---|---|
| **CET1 capital instruments issued** | | | |
| Ordinary shares: | | | |
| 258,800,000 issued and fully paid ordinary shares | 23 | **671,038** | 671,038 |

***Regulatory disclosures***

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

## SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited)

## (A) ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

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

| | 30 June 2023 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Gross loans and advances HK$'000 | Impairment allowances collectively assessed HK$'000 | Impairment allowances specifically assessed HK$'000 | New impairment allowances for loans charged to income statement HK$'000 | Amount of impaired loans and Advances written off HK$'000 | Collateral HK$'000 | Percentage of gross advances covered by collateral % | Impaired loans and advances HK$'000 | Loans and advances overdue for more than three months HK$'000 |
| Loans and advances for use in Hong Kong | | | | | | | | | |
| Manufacturing | **6,923** | **92** | **-** | **37** | **-** | **-** | **-** | **-** | **-** |
| Building and construction, property development and investment | | | | | | | | | |
| Property development | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Property investment | **50,087** | **5** | **-** | **1** | **-** | **50,087** | **100.0** | **-** | **-** |
| Civil engineering works | **5,745** | **76** | **106** | **131** | **-** | **-** | **-** | **106** | **106** |
| Electricity and gas | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Recreational activities | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Information technology | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Wholesale and retail trade | **40,797** | **547** | **-** | **704** | **483** | **-** | **-** | **-** | **-** |
| Transport and transport equipment | **661,829** | **210** | **-** | **13** | **-** | **660,913** | **99.9** | **-** | **-** |
| Hotels, boarding houses and catering | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Financial concerns | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Stockbrokers | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Non-stockbroking companies and individuals for the purchase of shares | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Professional and private individuals | | | | | | | | | |
| Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Loans for the purchase of other residential properties | **1,079,006** | **106** | **1** | **5** | **-** | **1,079,006** | **100.0** | **15,144** | **15,144** |
| Loans for credit card advances | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Loans for other business purposes | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Loans for other private purposes | **3,211,501** | **88,814** | **34,477** | **145,770** | **112,831** | **28,323** | **0.9** | **58,508** | **38,254** |
| Trade finance | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Other loans and advances | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Loans and advances for use outside Hong Kong | **7,686** | **478** | **93** | **531** | **282** | **-** | **-** | **112** | **112** |
| Total loans and advances (excluding other receivables) | **5,063,574** | **90,328** | **34,677** | **147,192** | **113,596** | **1,818,329** | **35.9** | **73,870** | **53,616** |

## SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited)

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

31 December 2022

| | Gross loans and advances HK$'000 | Impairment allowances collectively assessed HK$'000 | Impairment allowances specifically assessed HK$'000 | New Impairment allowances for loans charged to income statement HK$'000 | Amount of impaired loans and advances written off HK$'000 | Collateral HK$'000 | Percentage of gross advances covered by collateral % | Impaired loans and advances HK$'000 | Loans and advances overdue for more than three months HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| Loans and advances for use in Hong Kong | | | | | | | | | |
| Manufacturing | 6,763 | 95 | - | 43 | - | - | - | - | - |
| Building and construction, property development and investment | | | | | | | | | |
| Property development | - | - | - | - | - | - | - | - | - |
| Property investment | 45,017 | 4 | - | - | - | 45,017 | 100.0 | - | - |
| Civil engineering works | 6,170 | 87 | - | 45 | - | - | - | - | - |
| Electricity and gas | - | - | - | - | - | - | - | - | - |
| Recreational activities | - | - | - | - | - | - | - | - | - |
| Information technology | - | - | - | - | - | - | - | - | - |
| Wholesale and retail trade | 39,775 | 561 | - | 371 | - | - | - | - | - |
| Transport and transport equipment | 656,899 | 210 | - | 29 | - | 655,964 | 99.9 | - | - |
| Hotels, boarding houses and catering | - | - | - | - | - | - | - | - | - |
| Financial concerns | - | - | - | - | - | - | - | - | - |
| Stockbrokers | - | - | - | - | - | - | - | - | - |
| Non-stockbroking companies and individuals for the purchase of shares | - | - | - | - | - | - | - | - | - |
| Professional and private individuals | | | | | | | | | |
| Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme | - | - | - | - | - | - | - | - | - |
| Loans for the purchase of other residential properties | 1,109,254 | 111 | 1 | 13 | - | 1,109,254 | 100.0 | 7,837 | 7,837 |
| Loans for credit card advances | - | - | - | - | - | - | - | - | - |
| Loans for other business purposes | - | - | - | - | - | - | - | - | - |
| Loans for other private purposes | 3,219,617 | 90,836 | 39,696 | 268,279 | 208,391 | 29,431 | 0.9 | 65,453 | 39,208 |
| Trade finance | - | - | - | - | - | - | - | - | - |
| Other loans and advances | - | - | - | - | - | - | - | - | - |
| Loans and advances for use outside Hong Kong | 6,743 | 293 | 94 | 1,184 | 911 | - | - | 116 | 116 |
| Total loans and advances (excluding other receivables) | 5,090,238 | 92,197 | 39,791 | 269,964 | 209,302 | 1,839,666 | 36.1 | 73,406 | 47,161 |

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

## SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited)

### (B) MAINLAND ACTIVITIES

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

| | **30 June 2023** | | |
|---|---|---|---|
| **Type of counterparties** | **On-balance sheet exposure HK$'000** | **Off-balance sheet exposure HK$'000** | **Total HK$'000** |
| People's Republic of China ("PRC") nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China | **710** | **-** | **710** |
| Total | **710** | **-** | **710** |
| Total assets after provision | **5,942,530** | | |
| On-balance sheet exposures as percentage of total assets | **0.01%** | | |

| | 31 December 2022 | | |
|---|---|---|---|
| Type of counterparties | On-balance sheet exposure HK$'000 | Off-balance sheet exposure HK$'000 | Total HK$'000 |
| PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China | 795 | - | 795 |
| Total | 795 | - | 795 |
| Total assets after provision | 5,988,042 | | |
| On-balance sheet exposures as percentage of total assets | 0.01% | | |

*Note:*

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

**SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited)**

## (C) INTERNATIONAL CLAIMS

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

As at 30 June 2023 and 31 December 2022, the Company had no international claims on foreign counterparties.

## BUSINESS PERFORMANCE

For the six months ended 30 June 2023, the Group recorded a profit after tax of HK$56.4 million, representing a decrease of HK$48.9 million or 46.5% as compared with the profit after tax of HK$105.3 million for the corresponding period in 2022.

During the period under review, the Group's interest income increased by HK$9.4 million or 2.7% to HK$351.9 million mainly driven by the higher interest yield on deposit placements with banks, whilst interest expense increased by HK$74.7 million or 326.7% to HK$97.6 million mainly driven by the higher interest cost on fixed deposits. Consequently, the Group's net interest income decreased by HK$65.3 million or 20.4% to HK$254.4 million from HK$319.7 million in the corresponding period in 2022. In the past year, the customer deposit interest rates increased by around 3 percentage points under the higher interest rate environment. Non-interest income of the Group increased by HK$23.8 million or 43.1% to HK$79.0 million, mainly due to higher fees and commission income from stockbroking by HK$20.9 million in the period under review.

The Group's operating expenses increased by HK$5.0 million or 2.4% to HK$207.5 million mainly due to higher staff costs in the period under review.

Overall impaired loans to total loans ratio of the Group increased slightly by 0.02% to 1.46% as at 30 June 2023 from 1.44% as at 31 December 2022. Credit loss expenses increased by HK$12.7 million or 27.6% to HK$58.8 million mainly due to the escalation in credit charges for unsecured personal lending during the period under review.

Total gross loans and advances of the Group decreased by HK$26.7 million or 0.5% to HK$5.06 billion as at 30 June 2023 from HK$5.09 billion as at 31 December 2022. The Group's customer deposits increased by HK$69.3 million or 1.6% to HK$4.36 billion as at 30 June 2023 from HK$4.29 billion as at 31 December 2022. Total assets of the Group stood at HK$6.23 billion as at 30 June 2023.

The Group will continue to focus on its personal and commercial lending businesses. Moving forward, the Group will also allocate more resources to drive business growth via electronic channels in line with its fintech development plan.

By Order of the Board
**Public Finance Limited**
**Tang Wing Chew**
*Chairman*

20 July 2023