大眾金融控股有限公司
PUBLIC FINANCIAL HOLDINGS LIMITED

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

Interim Report 2022

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PUBLIC FINANCIAL HOLDINGS LIMITED
INTERIM REPORT 2022

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Corporate Information

BOARD OF DIRECTORS

Non-Executive Chairman

Tan Sri Dato' Sri Dr. Teh Hong Piow (Chairman), also Founder, Chairman Emeritus, Director and Adviser of Public Bank Berhad

Executive Director

Tan Yoke Kong

Non-Executive Directors

Lai Wan (Co-Chairman)
Dato' Chang Kat Kiam
Chong Yam Kiang
Quah Poh Keat

Independent Non-Executive Directors

Lee Chin Guan
Lim Chao Li
Cheah Kim Ling

JOINT SECRETARIES

Tan Yoke Kong
Chan Sau Kuen

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

SHARE LISTING

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

PRINCIPAL REGISTRAR

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

HONG KONG BRANCH REGISTRAR

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone : (852) 2980 1333
Facsimile : (852) 2810 8185

AUDITORS

Ernst & Young
Certified Public Accountants

Condensed Consolidated Income Statement

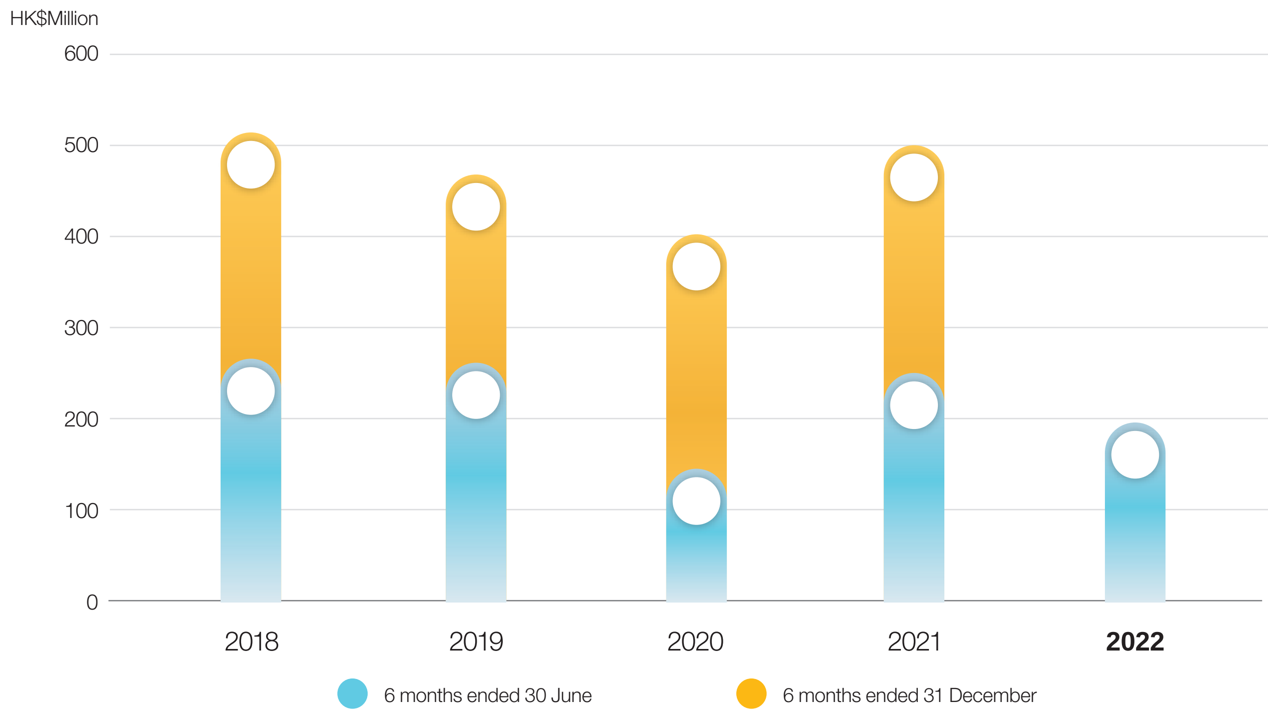
	Notes	For the six months ended 30 June 2022 (Unaudited) HK$'000	2021 (Unaudited) HK$'000
Interest income	7	**694,666**	728,743
Interest expense	7	**(88,694)**	(91,061)
NET INTEREST INCOME		**605,972**	637,682
Fees and commission income	8	**88,183**	105,453
Fees and commission expenses	8	**(821)**	(1,261)
Net fees and commission income		**87,362**	104,192
Other operating income	9	**20,772**	26,065
OPERATING INCOME		**714,106**	767,939
Operating expenses	10	**(412,339)**	(422,094)
Changes in fair value of investment properties		**(2,176)**	3,577
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		**299,591**	349,422
Credit loss expenses	11	**(61,852)**	(48,502)
PROFIT BEFORE TAX		**237,739**	300,920
Tax	12	**(44,420)**	(54,565)
PROFIT FOR THE PERIOD		**193,319**	246,355
ATTRIBUTABLE TO:			
Owners of the Company		**193,319**	246,355
EARNINGS PER SHARE (HK$)	14		
Basic		**0.176**	0.224
Diluted		**0.176**	0.224

Condensed Consolidated Statement of Comprehensive Income

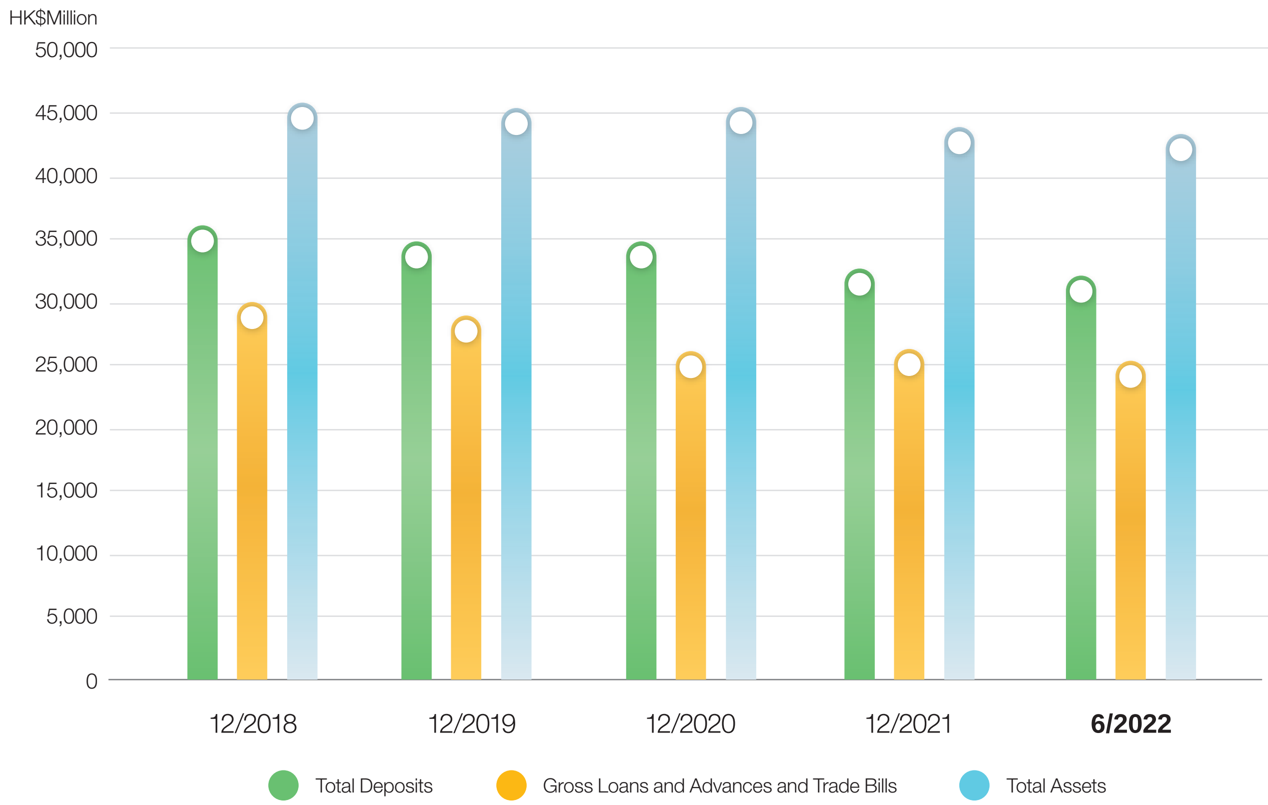
	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT FOR THE PERIOD	**193,319**	246,355
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations, net of tax	**(42,867)**	10,376
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**150,452**	256,731
ATTRIBUTABLE TO:		
Owners of the Company	**150,452**	256,731

Five-year Financial Summary

Profit



Financial Position



Condensed Consolidated Statement of Financial Position

	Notes	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
ASSETS			
Cash and short term placements	15	**4,341,109**	4,320,631
Placements with banks and financial institutions maturing after one month but not more than twelve months	16	**2,610,876**	2,290,111
Derivative financial instruments		**1,660**	1,551
Loans and advances and receivables	17	**24,989,700**	26,067,203
Equity investments at fair value through other comprehensive income	18	**6,804**	6,804
Held-to-collect debt securities at amortised cost	19	**6,611,244**	6,479,066
Investment properties	20	**364,759**	366,935
Property and equipment	21	**185,088**	186,742
Land held under finance leases	22	**738,401**	672,293
Right-of-use assets		**132,638**	133,358
Deferred tax assets		**43,619**	38,845
Tax recoverable		**433**	1,903
Goodwill		**2,774,403**	2,774,403
Intangible assets	23	**718**	718
Other assets	24	**440,539**	187,589
TOTAL ASSETS		**43,241,991**	43,528,152
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**370,879**	465,638
Derivative financial instruments		**2,711**	6,748
Customer deposits at amortised cost	25	**31,803,521**	32,175,337
Dividends payable		**54,896**	164,687
Unsecured bank loans at amortised cost	26	**1,551,774**	1,579,636
Lease liabilities		**136,437**	137,197
Current tax payable		**69,220**	72,537
Deferred tax liabilities		**46,898**	47,298
Other liabilities	24	**540,791**	309,766
TOTAL LIABILITIES		**34,577,127**	34,958,844
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		**109,792**	109,792
Reserves		**8,555,072**	8,459,516
TOTAL EQUITY		**8,664,864**	8,569,308
TOTAL EQUITY AND LIABILITIES		**43,241,991**	43,528,152

Condensed Consolidated Statement of Changes in Equity

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Property revaluation reserve HK$'000	Regulatory reserve# HK$'000	Retained profits HK$'000	Translation reserve HK$'000	Total HK$'000
As at 1 January 2022	**109,792**	**4,013,296**	**829**	**96,116**	**3,982**	**54,812**	**4,210,152**	**80,329**	**8,569,308**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**193,319**	**–**	**193,319**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(42,867)**	**(42,867)**
Transfer from regulatory reserve to retained profits	**–**	**–**	**–**	**–**	**–**	**(8,592)**	**8,592**	**–**	**–**
Dividends declared	**–**	**–**	**–**	**–**	**–**	**–**	**(54,896)**	**–**	**(54,896)**
As at 30 June 2022 (Unaudited)	**109,792**	**4,013,296**	**829**	**96,116**	**3,982**	**46,220**	**4,357,167**	**37,462**	**8,664,864**

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Property revaluation reserve HK$'000	Regulatory reserve# HK$'000	Retained profits HK$'000	Translation reserve HK$'000	Total HK$'000
As at 1 January 2021	109,792	4,013,296	829	96,116	3,982	53,280	3,934,806	53,040	8,265,141
Profit for the period	–	–	–	–	–	–	246,355	–	246,355
Other comprehensive income	–	–	–	–	–	–	–	10,376	10,376
Transfer from regulatory reserve to retained profits	–	–	–	–	–	(9,083)	9,083	–	–
Dividends declared	–	–	–	–	–	–	(54,896)	–	(54,896)
As at 30 June 2021 (Unaudited)	109,792	4,013,296	829	96,116	3,982	44,197	4,135,348	63,416	8,466,976
Profit for the period	–	–	–	–	–	–	250,106	–	250,106
Other comprehensive income	–	–	–	–	–	–	–	16,913	16,913
Transfer from retained profits to regulatory reserve	–	–	–	–	–	10,615	(10,615)	–	–
Dividends declared	–	–	–	–	–	–	(164,687)	–	(164,687)
As at 31 December 2021 (Audited)	109,792	4,013,296	829	96,116	3,982	54,812	4,210,152	80,329	8,569,308

\# *The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. It is held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to the guidelines issued by the Hong Kong Monetary Authority ("HKMA").*

Condensed Consolidated Statement of Cash Flows

	Notes	For the six months ended 30 June 2022 (Unaudited) HK$'000	2021 (Unaudited) HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**237,739**	300,920
Adjustments for:			
Dividend income from listed investments	9	**(101)**	(129)
Dividend income from unlisted investments	9	**(35)**	(35)
Depreciation of property and equipment and land held under finance leases	10	**21,858**	20,410
Depreciation of right-of-use assets	10	**29,726**	29,940
Other interest expenses	7	**1,332**	1,471
Gain on termination of leases	9	**(1,460)**	(1,052)
Payment of dismantling costs		**(125)**	(92)
Net losses on disposal of property and equipment	9	**28**	7
Increase/(decrease) in credit loss expenses for loans and advances and receivables		**9,608**	(1,577)
Increase in credit loss expenses for held-to-collect debt securities at amortised cost and bank placements		**51**	31
Decrease/(increase) in fair value of investment properties		**2,176**	(3,577)
Exchange differences		**(41,911)**	9,844
Profits tax paid		**(52,427)**	(54,779)
Operating profit before changes in operating assets and liabilities		**206,459**	301,382
Decrease in operating assets:			
Increase in placements with banks and financial institutions		**(174,966)**	(267,428)
Decrease in loans and advances and receivables		**1,067,895**	424,622
Increase in held-to-collect debt securities at amortised cost		**(132,191)**	(233,525)
(Increase)/decrease in other assets		**(252,950)**	164,468
(Increase)/decrease in derivative financial instruments		**(109)**	17,261
		507,679	105,398
Decrease in operating liabilities:			
(Decrease)/increase in deposits and balances of banks and other financial institutions at amortised cost		**(94,759)**	662,854
Decrease in customer deposits at amortised cost		**(371,816)**	(877,063)
(Decrease)/increase in derivative financial instruments		**(4,037)**	9,471
Increase/(decrease) in other liabilities		**230,766**	(193,262)
		(239,846)	(398,000)
Net cash inflow from operating activities		**474,292**	8,780

Condensed Consolidated Statement of Cash Flows

	Notes	For the six months ended 30 June 2022 (Unaudited) HK$'000	2021 (Unaudited) HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	21	**(15,518)**	(12,592)
Purchase of land held under finance leases	22	**(70,822)**	–
Sales proceeds from disposal of property and equipment		**–**	5
Dividends received from listed investments	9	**101**	129
Dividends received from unlisted investments	9	**35**	35
Net cash outflow from investing activities		**(86,204)**	(12,423)
CASH FLOWS FROM FINANCING ACTIVITIES			
New unsecured bank loans		**1,140,000**	35,678
Repayment of unsecured bank loans		**(1,167,862)**	(73,000)
Repayment of lease liabilities		**(29,223)**	(30,891)
Dividends paid on shares		**(164,687)**	(131,750)
Net cash outflow from financing activities		**(221,772)**	(199,963)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**166,316**	(203,606)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**5,166,068**	6,174,251
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**5,332,384**	5,970,645
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand	31	**1,246,743**	1,337,373
Money at call and short notice with an original maturity within three months		**3,059,672**	4,563,378
Placements with banks and financial institutions with an original maturity within three months		**1,025,969**	69,894
		5,332,384	5,970,645
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		**(81,258)**	(114,724)
Interest received		**696,433**	732,785

Notes to Interim Financial Statements

1. CORPORATE AND GROUP INFORMATION

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

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

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

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

Particulars of the Company's subsidiaries are as follows:

Name	Issued ordinary share capital HK$	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Public Bank (Hong Kong) Limited	2,854,045,000	100	–	Provision of banking and financial services
Public Bank (Nominees) Limited	100,000	–	100	Provision of nominee services
Public Futures Limited	2	–	100	Dormant
Public Financial Securities Limited	48,000,000	–	100	Securities brokerage
Public Finance Limited	671,038,000	–	100	Deposit-taking and financing
Public Financial Limited	10,100,000	–	100	Investment holding
Public Securities Limited	10,000,000	–	100	Securities brokerage
Public Securities (Nominees) Limited	10,000	–	100	Provision of nominee services
Winton (B.V.I.) Limited	61,773	100	–	Investment holding

Notes to Interim Financial Statements

1. CORPORATE AND GROUP INFORMATION (Continued)

Name	Issued ordinary share capital HK$	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Winton Financial Limited	4,000,010	–	100	Provision of personal and property mortgage loans, and financing of licensed public vehicles such as taxis
Winton Motors, Limited	78,000	–	100	Trading of taxi cabs, taxi licences and leasing of taxis

Notes:

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

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

2. BASIS OF PREPARATION

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

The interim financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group’s 2021 Annual Report.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group’s 2021 Annual Report, except for the changes in accounting policies as set out in note 5 below.

3. BASIS OF CONSOLIDATION

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

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the 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).

Notes to Interim Financial Statements

3. BASIS OF CONSOLIDATION (Continued)

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

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

4. BASIS OF CAPITAL DISCLOSURES

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

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

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

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

4. BASIS OF CAPITAL DISCLOSURES (Continued)

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

The Group has adopted the provisions of the Banking Ordinance relating to the Basel III capital standards and the Banking (Capital) Rules (the "Capital Rules"). The Capital Rules outline the general requirements on regulatory capital ratios, the components of eligible regulatory capital as well as the levels of those ratios at which banking institutions are required to operate. The Capital Rules have been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision. Under the Capital Rules, the required capital conservation buffer ("CCB") ratio for 2021 and 2022 is 2.5%, whilst the required countercyclical capital buffer ("CCyB") ratio for 2021 and 2022 is 1.0%.

5. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

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

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

The nature and impact of the amendments are described below.

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

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

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

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

Notes to Interim Financial Statements

5. ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

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

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

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

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

- The amendment to HKFRS 1 permits a subsidiary that elects to apply paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to HKFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of HKFRS 1. This amendment had no impact on the interim financial statements of the Group as it is not a first-time adopter.

- The amendment to HKFRS 9 clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for HKAS 39 *Financial Instruments: Recognition and Measurement*. This amendment had no impact on the interim financial statements of the Group as there were no modifications of the Group's financial instruments during the period.

- HKFRS 16 *Leases* removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

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

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

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

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

Amendments to HKAS 1 (Revised) *Presentation of Financial Statements* and HKFRS Practice Statement 2 *Making Materiality Judgements* replace the requirement of entities to disclose their significant accounting policies with a requirement to disclose their material accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make based on those financial statements. The amendments to HKFRS Practice Statement 2 provide guidance on applying materiality judgements on accounting policy disclosures. In assessing the materiality of accounting policy information, entities are required to consider both the size of the transactions, other events or conditions and the nature of them. The amendments are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

6. SEGMENT INFORMATION

Operating segment information

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

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

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

- other businesses segment comprises taxi trading, leasing of taxis and letting of investment properties.

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6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

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

	Retail and commercial banking businesses For the six months ended 30 June		Wealth management services, stockbroking and securities management For the six months ended 30 June		Other businesses For the six months ended 30 June		Total For the six months ended 30 June	
	2022 (Unaudited) HK$'000	2021 (Unaudited) HK$'000	**2022 (Unaudited) HK$'000**	2021 (Unaudited) HK$'000	**2022 (Unaudited) HK$'000**	2021 (Unaudited) HK$'000	**2022 (Unaudited) HK$'000**	2021 (Unaudited) HK$'000
Segment revenue								
External:								
Net interest income/(expense)	**606,033**	637,771	**(61)**	(89)	**–**	–	**605,972**	637,682
Net fees and commission income	**58,654**	60,732	**28,708**	43,460	**–**	–	**87,362**	104,192
Other operating income/(expense)	**13,076**	19,074	**223**	(4)	**7,473**	6,995	**20,772**	26,065
Operating income	**677,763**	717,577	**28,870**	43,367	**7,473**	6,995	**714,106**	767,939
Operating profit/(loss) after credit loss expenses before tax	**231,094**	273,588	**8,575**	23,820	**(1,930)**	3,512	**237,739**	300,920
Tax							**(44,420)**	(54,565)
Profit for the period							**193,319**	246,355
Other segment information								
Depreciation of property and equipment and land held under finance leases	**(21,858)**	(20,410)	**–**	–	**–**	–	**(21,858)**	(20,410)
Depreciation of right-of-use assets	**(29,726)**	(29,940)	**–**	–	**–**	–	**(29,726)**	(29,940)
Changes in fair value of investment properties	**–**	–	**–**	–	**(2,176)**	3,577	**(2,176)**	3,577
Credit loss expenses	**(61,852)**	(48,502)	**–**	–	**–**	–	**(61,852)**	(48,502)
Net losses on disposal of property and equipment	**(28)**	(7)	**–**	–	**–**	–	**(28)**	(7)

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

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

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000	**30 June 2022 (Unaudited) HK$'000**	31 December 2021 (Audited) HK$'000	**30 June 2022 (Unaudited) HK$'000**	31 December 2021 (Audited) HK$'000	**30 June 2022 (Unaudited) HK$'000**	31 December 2021 (Audited) HK$'000
Segment assets other than intangible assets and goodwill	**39,424,273**	39,950,012	**633,719**	395,219	**364,826**	367,052	**40,422,818**	40,712,283
Intangible assets	**–**	–	**718**	718	**–**	–	**718**	718
Goodwill	**2,774,403**	2,774,403	**–**	–	**–**	–	**2,774,403**	2,774,403
Segment assets	**42,198,676**	42,724,415	**634,437**	395,937	**364,826**	367,052	**43,197,939**	43,487,404
Unallocated assets:								
Deferred tax assets and tax recoverable							**44,052**	40,748
Total assets							**43,241,991**	43,528,152
Segment liabilities	**34,059,259**	34,556,925	**341,321**	111,985	**5,533**	5,412	**34,406,113**	34,674,322
Unallocated liabilities:								
Deferred tax liabilities and tax payable							**116,118**	119,835
Dividends payable							**54,896**	164,687
Total liabilities							**34,577,127**	34,958,844
Other segment information								
Additions to non-current assets – capital expenditure	**86,340**	29,481	**–**	–	**–**	–	**86,340**	29,481

Notes to Interim Financial Statements

6. SEGMENT INFORMATION (Continued)

Geographical information

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

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

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Segment revenue from external customers:		
Hong Kong	**659,965**	711,800
Mainland China	**54,141**	56,139
	714,106	767,939

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

The following table discloses the non-current assets information for geographical segments as at 30 June 2022 and 31 December 2021.

	30 June 2022	31 December 2021
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Non-current assets:		
Hong Kong	**4,168,695**	4,106,064
Mainland China	**27,312**	28,385
	4,196,007	4,134,449

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

Operating income or revenue from major customers

Operating income or revenue from transactions with each external customer amounted to less than 10% (2021: less than 10%) of the Group's total operating income or revenue.

7. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**648,000**	681,042
Short term placements and placements with banks	**23,373**	24,125
Held-to-collect debt securities at amortised cost	**23,293**	23,576
	694,666	728,743
Interest expense on:		
Deposits from banks and financial institutions	**1,345**	617
Deposits from customers	**75,541**	77,908
Bank loans	**10,476**	11,065
Others	**1,332**	1,471
	88,694	91,061

Interest income and interest expense for the six months ended 30 June 2022, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss ("FVPL"), amounted to HK$694,666,000 and HK$88,694,000 (2021: HK$728,743,000 and HK$91,061,000) respectively.

8. NET FEES AND COMMISSION INCOME

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Fees and commission income:		
Retail and commercial banking and other businesses	**59,475**	61,993
Wealth management services, stockbroking and securities management	**28,708**	43,460
	88,183	105,453
Less: Fees and commission expenses	**(821)**	(1,261)
	87,362	104,192

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

Notes to Interim Financial Statements

9. OTHER OPERATING INCOME

	For the six months ended 30 June 2022 (Unaudited) HK$'000	2021 (Unaudited) HK$'000
Gross rental income	**7,509**	7,032
Less: Direct operating expenses	**(36)**	(38)
Net rental income	**7,473**	6,994
Gains less losses arising from dealing in foreign currencies	**10,215**	20,097
Net losses on derivative financial instruments	**(1,051)**	(3,663)
	9,164	16,434
Net losses on disposal of property and equipment	**(28)**	(7)
Gain on termination of leases	**1,460**	1,052
Dividend income from listed investments	**101**	129
Dividend income from unlisted investments	**35**	35
Government subsidies	**2,246**	977
Others	**321**	451
	20,772	26,065

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

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

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

There were no net gains or losses arising from equity investments at fair value through other comprehensive income ("FVOCI"), loans and advances and receivables, financial assets and financial liabilities measured at amortised cost and financial assets and financial liabilities designated at FVPL for the six months ended 30 June 2022 and 30 June 2021.

10. OPERATING EXPENSES

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Staff costs:		
Salaries and other staff costs	**246,009**	259,637
Pension contributions	**12,009**	12,134
Less: Forfeited contributions	**(20)**	(24)
Net contribution to retirement benefit schemes	**11,989**	12,110
	257,998	271,747
Other operating expenses:		
Depreciation of right-of-use assets	**29,726**	29,940
Depreciation of property and equipment and land held under finance leases	**21,858**	20,410
Administrative and general expenses	**38,021**	36,974
Others	**64,736**	63,023
Operating expenses before changes in fair value of investment properties	**412,339**	422,094

As at 30 June 2022 and 30 June 2021, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The credits for the periods ended 30 June 2022 and 30 June 2021 arose in respect of staff who left the schemes during the periods.

Notes to Interim Financial Statements

11. CREDIT LOSS EXPENSES

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

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

	For the six months ended 30 June 2021 (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	119	6,088	42,018	48,225
– trade bills, accrued interest and other receivables	2	48	186	236
– cash and short term placements	(30)	–	–	(30)
– placements with banks and financial institutions	50	–	–	50
– held-to-collect debt securities at amortised cost	11	–	–	11
– loan commitments	10	–	–	10
	162	6,136	42,204	48,502

Notes to Interim Financial Statements

12. TAX

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current tax charge:		
Hong Kong	**35,833**	44,792
Overseas	**15,806**	9,494
Deferred tax (credit)/charge, net	**(7,219)**	279
	44,420	54,565

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

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

Notes to Interim Financial Statements

12. TAX (Continued)

	For the six months ended 30 June 2021 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	262,037		38,883		300,920	
Tax at the applicable tax rate	43,236	16.5	9,721	25.0	52,957	17.6
Estimated tax effect of net expenses that are not deductible	1,387	0.5	221	0.6	1,608	0.5
Tax charge at the Group's effective rate	44,623	17.0	9,942	25.6	54,565	18.1

13. DIVIDENDS

(a) Dividends declared during the interim period

	For the six months ended 30 June			
	2022 (Unaudited) HK$ per ordinary share	2021 (Unaudited) HK$ per ordinary share	**2022 (Unaudited) HK$'000**	2021 (Unaudited) HK$'000
Interim dividend	**0.05**	0.05	**54,896**	54,896

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

	For the six months ended 30 June			
	2022 (Unaudited) HK$ per ordinary share	2021 (Unaudited) HK$ per ordinary share	**2022 (Unaudited) HK$'000**	2021 (Unaudited) HK$'000
Second interim dividend in respect of the previous period	**0.15**	0.12	**164,687**	131,750

14. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit for the period of HK$193,319,000 (2021: HK$246,355,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2021: 1,097,917,618) during the period.

(b) Diluted earnings per share

The Group had no potentially dilutive ordinary shares in issue during the periods ended 30 June 2022 and 30 June 2021.

15. CASH AND SHORT TERM PLACEMENTS

	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
Cash on hand	**169,390**	191,800
Placements with banks and financial institutions	**1,077,353**	850,404
Money at call and short notice	**3,094,784**	3,278,839
Gross cash and short term placements	**4,341,527**	4,321,043
Less: Impairment allowances collectively assessed		
As at 1 January 2022 and 2021	**(412)**	(605)
Credit loss expenses (charged)/released to the consolidated income statement during the period/year	**(6)**	193
	(418)	(412)
Cash and short term placements	**4,341,109**	4,320,631

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

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

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

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

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

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

Notes to Interim Financial Statements

17. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
Loans and advances to customers	**25,094,871**	26,154,174
Trade bills	**10,985**	11,989
Loans and advances, and trade bills	**25,105,856**	26,166,163
Accrued interest	**67,129**	72,416
	25,172,985	26,238,579
Other receivables	**10,599**	12,900
Gross loans and advances and receivables	**25,183,584**	26,251,479
Less: Impairment allowances		
– specifically assessed	**(74,013)**	(65,752)
– collectively assessed	**(119,871)**	(118,524)
	(193,884)	(184,276)
Loans and advances and receivables	**24,989,700**	26,067,203

Over 90% (31 December 2021: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (31 December 2021: over 90%) of the collateral for the secured loans and advances and receivables were customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

Loans and advances and receivables are summarised as follows:

	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
Neither past due nor impaired loans and advances and receivables	**24,388,136**	25,443,428
Past due but not impaired loans and advances and receivables	**507,112**	560,052
Credit impaired loans and advances	**275,578**	234,512
Credit impaired receivables	**12,758**	13,487
Gross loans and advances and receivables	**25,183,584**	26,251,479

About 70% (31 December 2021: about 69%) of "Neither past due nor impaired loans and advances and receivables" were property mortgage loans and hire purchase loans secured by properties, taxi licences, public light bus licences and vehicles.

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

	30 June 2022 (Unaudited) Gross amount HK$'000	30 June 2022 (Unaudited) Percentage of total loans and advances %	31 December 2021 (Audited) Gross amount HK$'000	31 December 2021 (Audited) Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	**90,443**	**0.36**	53,091	0.21
One year or less but over six months	**37,645**	**0.15**	23,791	0.09
Over one year	**87,050**	**0.35**	118,101	0.45
Loans and advances overdue for more than three months	**215,138**	**0.86**	194,983	0.75
Rescheduled loans and advances overdue for three months or less	**28,160**	**0.11**	28,165	0.11
Impaired loans and advances overdue for three months or less	**32,280**	**0.13**	11,364	0.04
Total overdue and impaired loans and advances	**275,578**	**1.10**	234,512	0.90

Notes to Interim Financial Statements

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**1,234**	471
One year or less but over six months	**1,620**	1,158
Over one year	**9,693**	11,792
Trade bills, accrued interest and other receivables overdue for more than three months	**12,547**	13,421
Impaired trade bills, accrued interest and other receivables overdue for three months or less	**211**	66
Total overdue and impaired trade bills, accrued interest and other receivables	**12,758**	13,487

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

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

	30 June 2022 (Unaudited)			31 December 2021 (Audited)		
	Hong Kong HK$'000	**Mainland China HK$'000**	**Total HK$'000**	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	**145,371**	**82,314**	**227,685**	95,182	113,222	208,404
Impairment allowances specifically assessed	**51,940**	**9,070**	**61,010**	40,431	12,207	52,638
Current market value and fair value of collateral			**262,164**			259,176

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2022 (Unaudited)			31 December 2021 (Audited)		
	Hong Kong HK$'000	**Mainland China HK$'000**	**Total HK$'000**	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**203,599**	**84,737**	**288,336**	133,141	114,858	247,999
Impairment allowances specifically assessed	**64,943**	**9,070**	**74,013**	53,545	12,207	65,752
Current market value and fair value of collateral			**335,379**			278,001

Over 90% (31 December 2021: over 90%) of the Group's gross loans and advances and receivables were derived from operations carried out in Hong Kong. Accordingly, no geographical segment information of gross loans and advances and receivables is presented herein.

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

	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**262,164**	259,176
Covered portion of overdue loans and advances	**155,558**	147,671
Uncovered portion of overdue loans and advances	**59,580**	47,312

Notes to Interim Financial Statements

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

The assets taken as collateral should satisfy the following criteria:

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

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

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

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

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

– Central governments with a grading of Aa3 or above

– Unrated public sector enterprises

– Banks with a grading of Baa2 or above

– Unrated corporations

– Individual shareholders and directors of corporate customers

(d) Repossessed assets

As at 30 June 2022, the total value of repossessed assets of the Group amounted to HK$34,735,000 (31 December 2021: HK$34,145,000).

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

	30 June 2022 (Unaudited)		31 December 2021 (Audited)	
	Gross amount HK$'000	**Percentage of total loans and advances %**	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for three months or less	**504,185**	**2.01**	556,719	2.13
Trade bills, accrued interest and other receivables overdue for three months or less	**2,927**		3,333	

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(f) Impairment allowances on loans and advances and receivables

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

	30 June 2022 (Unaudited)			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Gross loans and advances and receivables as at 1 January 2022	25,752,582	250,898	247,999	26,251,479
New loans/financing originated	3,600,742	700	799	3,602,241
Loans/financing derecognised or repaid during the period (other than write-offs)	(4,461,280)	(48,573)	(58,847)	(4,568,700)
Transfer to 12-month expected credit loss (Stage 1)	77,763	(69,338)	(8,425)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(135,277)	139,383	(4,106)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(144,668)	(67,684)	212,352	–
Total transfer between stages	(202,182)	2,361	199,821	–
Write-offs	–	–	(101,436)	(101,436)
As at 30 June 2022	24,689,862	205,386	288,336	25,183,584
Arising from:				
Loans and advances	24,615,552	203,741	275,578	25,094,871
Trade bills, accrued interest and other receivables	74,310	1,645	12,758	88,713
	24,689,862	205,386	288,336	25,183,584

The amount outstanding on financial assets that were written off during the period and are still subject to enforcement action amounted to HK$79,185,000.

Notes to Interim Financial Statements

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2021 (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 2021	25,759,389	267,868	231,834	26,259,091
New loans/financing originated	7,151,313	1,900	4,132	7,157,345
Loans/financing derecognised or repaid during the year (other than write-offs)	(6,861,970)	(40,313)	(62,817)	(6,965,100)
Transfer to 12-month expected credit loss (Stage 1)	105,536	(90,293)	(15,243)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(190,526)	192,248	(1,722)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(211,160)	(80,512)	291,672	–
Total transfer between stages	(296,150)	21,443	274,707	–
Write-offs	–	–	(199,857)	(199,857)
As at 31 December 2021	25,752,582	250,898	247,999	26,251,479
Arising from:				
Loans and advances	25,670,854	248,808	234,512	26,154,174
Trade bills, accrued interest and other receivables	81,728	2,090	13,487	97,305
	25,752,582	250,898	247,999	26,251,479

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK$160,164,000.

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

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

	30 June 2022 (Unaudited)			
	Stage 1 HK$'000	**Stage 2 HK$'000**	**Stage 3 HK$'000**	**Total HK$'000**
Internal rating grades:				
Performing				
Pass	**24,582,714**	**–**	**–**	**24,582,714**
Special Mention	**107,148**	**205,386**	**–**	**312,534**
Non-performing				
Substandard	**–**	**–**	**144,722**	**144,722**
Doubtful	**–**	**–**	**126,093**	**126,093**
Loss	**–**	**–**	**17,521**	**17,521**
Total	**24,689,862**	**205,386**	**288,336**	**25,183,584**

	31 December 2021 (Audited)			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Internal rating grades:				
Performing				
Pass	25,540,678	–	–	25,540,678
Special Mention	211,904	250,898	–	462,802
Non-performing				
Substandard	–	–	85,574	85,574
Doubtful	–	–	145,513	145,513
Loss	–	–	16,912	16,912
Total	25,752,582	250,898	247,999	26,251,479

Notes to Interim Financial Statements

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

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

	30 June 2022 (Unaudited)			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
As at 1 January 2022*	96,568	21,924	65,752	184,244
New loans/financing originated	36,236	1	215	36,452
Loans/financing derecognised or repaid during the period (other than write-offs)	(43,126)	(3,082)	(51,631)	(97,839)
Transfer to 12-month expected credit loss (Stage 1)	2,151	(640)	(1,511)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(2,316)	2,316	–	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(3,139)	(16,370)	19,509	–
Total transfer between stages	(3,304)	(14,694)	17,998	–
Impact on period end expected credit loss of exposures transferred between stages during the period	(974)	29,289	84,408	112,723
Movements due to changes in credit risk	935	98	9,446	10,479
Recoveries	–	–	49,261	49,261
Write-offs	–	–	(101,436)	(101,436)
As at 30 June 2022	86,335	33,536	74,013	193,884
Arising from:				
Loans and advances	85,147	33,464	72,064	190,675
Trade bills, accrued interest and other receivables	1,188	72	1,949	3,209
	86,335	33,536	74,013	193,884

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

Notes to Interim Financial Statements

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2021 (Audited)			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
As at 1 January 2021	96,492	24,077	60,022	180,591
New loans/financing originated	54,147	–	531	54,678
Loans/financing derecognised or repaid during the year (other than write-offs)	(54,155)	(4,189)	(118,681)	(177,025)
Transfer to 12-month expected credit loss (Stage 1)	6,204	(3,346)	(2,858)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(1,643)	1,780	(137)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(5,903)	(15,362)	21,265	–
Total transfer between stages	(1,342)	(16,928)	18,270	–
Impact on year end expected credit loss of exposures transferred between stages during the year	(3,442)	18,983	169,147	184,688
Movements due to changes in credit risk	4,900	(19)	23,753	28,634
Recoveries	–	–	112,567	112,567
Write-offs	–	–	(199,857)	(199,857)
As at 31 December 2021	96,600	21,924	65,752	184,276
Arising from:				
Loans and advances	95,235	21,911	63,755	180,901
Trade bills, accrued interest and other receivables	1,333	13	1,997	3,343
Loan commitments	30	–	–	30
Financial guarantees and letters of credit	2	–	–	2
	96,600	21,924	65,752	184,276

Notes to Interim Financial Statements

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(g) Finance lease receivables

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

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

The Group has entered into finance lease arrangements with customers in respect of motor vehicles and equipment. The terms of the finance leases entered into range from 1 to 30 years.

18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

During the period/year, the Group received dividends of HK$35,000 (2021: HK$35,000) from the above investments.

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

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

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

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

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

Notes to Interim Financial Statements

20. INVESTMENT PROPERTIES

	HK$'000
At valuation:	
As at 1 January 2021	357,940
Changes in fair value recognised in the consolidated income statement	8,995
As at 31 December 2021 and 1 January 2022 (Audited)	**366,935**
Changes in fair value recognised in the consolidated income statement	**(2,176)**
As at 30 June 2022 (Unaudited)	**364,759**

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

All investment properties were classified under Level 3 in the fair value hierarchy. During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (31 December 2021: Nil). The Group has assessed that the highest and best use of its properties did not differ from their existing use.

As at 30 June 2022, investment properties were revalued according to the valuation assessed by C S Surveyors Limited, a firm of independent professionally qualified valuers. Finance and Control Department has discussions with the valuer on the valuation methodology and valuation results at least twice a year when the valuation is performed for interim and annual financial reporting.

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

	30 June 2022 (Unaudited)		31 December 2021 (Audited)	
	Range HK$	**Weighted average HK$**	Range HK$	Weighted average HK$
Price per square metre	**31,000 to 516,000**	**193,000**	32,000 to 521,000	195,000

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

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

Notes to Interim Financial Statements

21. PROPERTY AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
As at 1 January 2021	83,518	391,628	1,856	477,002
Additions	–	29,481	–	29,481
Disposals/write-off	–	(6,873)	(396)	(7,269)
As at 31 December 2021 and 1 January 2022 (Audited)	**83,518**	**414,236**	**1,460**	**499,214**
Additions	**772**	**14,746**	**–**	**15,518**
Disposals/write-off	**–**	**(17,234)**	**–**	**(17,234)**
As at 30 June 2022 (Unaudited)	**84,290**	**411,748**	**1,460**	**497,498**
Accumulated depreciation:				
As at 1 January 2021	30,532	254,441	887	285,860
Provided during the year	1,668	31,935	266	33,869
Disposals/write-off	–	(6,861)	(396)	(7,257)
As at 31 December 2021 and 1 January 2022 (Audited)	**32,200**	**279,515**	**757**	**312,472**
Provided during the period	**843**	**16,173**	**128**	**17,144**
Disposals/write-off	**–**	**(17,206)**	**–**	**(17,206)**
As at 30 June 2022 (Unaudited)	**33,043**	**278,482**	**885**	**312,410**
Net carrying amount:				
As at 30 June 2022 (Unaudited)	**51,247**	**133,266**	**575**	**185,088**
As at 31 December 2021 (Audited)	51,318	134,721	703	186,742

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

Notes to Interim Financial Statements

22. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
As at 1 January 2021, 31 December 2021 and 1 January 2022 (Audited)	**815,428**
Additions	**70,822**
As at 30 June 2022 (Unaudited)	**886,250**
Accumulated depreciation and impairment:	
As at 1 January 2021	135,263
Depreciation provided during the year	7,872
As at 31 December 2021 and 1 January 2022 (Audited)	**143,135**
Depreciation provided during the period	**4,714**
As at 30 June 2022 (Unaudited)	**147,849**
Net carrying amount:	
As at 30 June 2022 (Unaudited)	**738,401**
As at 31 December 2021 (Audited)	672,293

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

23. INTANGIBLE ASSETS

	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
Cost:		
At the beginning and the end of the period/year	**1,085**	1,085
Accumulated impairment:		
At the beginning and the end of the period/year	**367**	367
Net carrying amount:		
At the beginning and the end of the period/year	**718**	718

Intangible assets represent trading rights held by the Group. The trading rights are retained for stock trading and stockbroking activities, and have indefinite useful lives as the trading rights have no expiry date. They comprise five units (31 December 2021: five units) of Stock Exchange Trading Right and one unit (31 December 2021: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

24. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
Interest receivable from financial institutions	**19,303**	15,783
Other debtors, deposits and prepayments	**421,236**	131,341
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	**–**	40,465
	440,539	187,589

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

Notes to Interim Financial Statements

24. OTHER ASSETS AND OTHER LIABILITIES (Continued)
Other liabilities

	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
Creditors, accruals and other payables*	**219,043**	269,846
Interest payable	**33,574**	26,139
Net amount of accounts payable to HKSCC	**288,174**	13,781
	540,791	309,766

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

25. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
Demand deposits and current accounts	**4,907,727**	4,664,799
Savings deposits	**7,676,253**	8,114,446
Time, call and notice deposits	**19,219,541**	19,396,092
	31,803,521	32,175,337

Notes to Interim Financial Statements

26. UNSECURED BANK LOANS AT AMORTISED COST

	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
Unsecured bank loans	**1,551,774**	1,579,636
Repayable:		
On demand or within a period not exceeding one year	**1,551,774**	1,579,636
Within a period of more than one year but not exceeding two years	**–**	–
Within a period of more than two years but not exceeding five years	**–**	–
	1,551,774	1,579,636

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

Notes to Interim Financial Statements

27. LEASES

(a) As lessor

The Group leases its investment properties as disclosed in note 20 to the interim financial statements under operating lease arrangements, and the terms of the leases range from 1 to 3 years.

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

	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
Within one year	**9,283**	10,054
Over one year but within two years	**4,276**	4,929
Over two years but within three years	**1,140**	1,918
Over three years but within four years	**–**	228
	14,699	17,129

(b) As lessee

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

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

28. OFF-BALANCE SHEET EXPOSURE

(a) Contingent liabilities, commitments and derivatives

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

	30 June 2022 (Unaudited) Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	**23,100**	**23,100**	**18,415**	**–**	**–**
Transaction-related contingencies	**3,852**	**1,926**	**816**	**–**	**–**
Trade-related contingencies	**3,243**	**649**	**465**	**–**	**–**
Forward forward deposits placed	**140,000**	**140,000**	**28,000**	**–**	**–**
Forward asset purchases	**–**	**–**	**–**	**–**	**–**
	170,195	**165,675**	**47,696**	**–**	**–**
Derivatives held for trading:					
Foreign exchange rate contracts	**660,235**	**10,102**	**2,020**	**1,660**	**2,711**
Other commitments with an original maturity of:					
Not more than one year	**–**	**–**	**–**	**–**	**–**
More than one year	**155,840**	**77,920**	**77,920**	**–**	**–**
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	**2,276,644**	**–**	**–**	**–**	**–**
	3,262,914	**253,697**	**127,636**	**1,660**	**2,711**

	30 June 2022 (Unaudited) Contractual amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	**28,250**

Notes to Interim Financial Statements

28. OFF-BALANCE SHEET EXPOSURE (Continued)

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

	31 December 2021 (Audited)				
	Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	23,011	23,011	18,365	–	–
Transaction-related contingencies	4,002	2,001	816	–	–
Trade-related contingencies	11,601	2,320	2,223	–	–
Forward forward deposits placed	272,874	272,874	54,575	–	–
Forward asset purchases	–	–	–	–	–
	311,488	300,206	75,979	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	934,327	15,253	3,051	1,551	6,748
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	77,920	38,960	38,960	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,256,137	–	–	–	–
	3,579,872	354,419	117,990	1,551	6,748

	31 December 2021 (Audited) Contractual amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	8,347

28. OFF-BALANCE SHEET EXPOSURE (Continued)

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

As at 30 June 2022 and 31 December 2021, the corresponding ECLs for the outstanding off-balance sheet exposures, including loan commitments and financial guarantees and letters of credit under stage 1, amounted to HK$18,000 and HK$32,000 respectively.

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

As at 30 June 2022 and 31 December 2021, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

(b) Derivative financial instruments

The Group uses the following derivative financial instruments:

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

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

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

Notes to Interim Financial Statements

29. RELATED PARTY TRANSACTIONS

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

	For the six months ended 30 June	
	2022 (Unaudited) HK$'000	2021 (Unaudited) HK$'000
Related party transactions included in the consolidated income statement:		
Interest paid and payable to the ultimate holding company and fellow subsidiaries	**2,662**	2,374
Deposit interest and commitment fees paid to the ultimate holding company and fellow subsidiaries	**1,971**	2,040
Commitment fees and services fees paid to fellow subsidiaries	**70**	–
Key management personnel compensation:		
– short term employee benefits	**3,728**	3,641
– post-employment benefits	**197**	192
Interest paid to key management personnel	**3**	5
Commission fee income from key management personnel	**1**	3

	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
Related party transactions included in the consolidated statement of financial position:		
Cash and short term funds with the ultimate holding company	**2,346**	6,849
Deposits from the ultimate holding company and fellow subsidiaries	**20,176**	18,744
Bank loans from the ultimate holding company and a fellow subsidiary	**455,000**	480,000
Interest payable to the ultimate holding company and a fellow subsidiary	**35**	90
Deposits from key management personnel	**2,961**	2,582
Interest payable to key management personnel	**2**	1

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Fixed rate financial instruments

Fixed rate financial instruments include placements with banks and financial institutions, loans and advances and receivables, held-to-collect debt securities at amortised cost, deposits from banks and other financial institutions, customer deposits and certificates of deposit issued. The fair values of these fixed rate financial instruments carried at amortised cost are determined based on prevailing money-market interest rates or current interest rates offered for similar financial instruments appropriate for the remaining term to maturity. The carrying amounts of such financial instruments are not materially different from their fair values.

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

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

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

Notes to Interim Financial Statements

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

Level 2 financial instruments comprise forward foreign exchange contracts and currency swaps. These instruments have been measured at fair value based on the forward foreign exchange rates that are quoted in an active market. As at 30 June 2022 and 31 December 2021, the effects of discounting were considered insignificant for the Level 2 financial instruments.

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

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

For the period ended 30 June 2022 and the year ended 31 December 2021, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the period ended 30 June 2022 and the year ended 31 December 2021, there were no issues and settlements related to the Level 3 financial instruments.

There was no gain or loss and no OCI reported in the consolidated income statement and consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the period ended 30 June 2022 and the year ended 31 December 2021.

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

31. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	30 June 2022 (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	1,246,743	3,094,784	–	–	–	–	–	4,341,527
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	2,030,645	580,492	–	–	–	2,611,137
Gross loans and advances and receivables	430,768	2,196,392	1,054,492	2,060,498	5,961,833	13,170,732	308,869	25,183,584
Equity investments at fair value through other comprehensive income	–	–	–	–	–	–	6,804	6,804
Gross held-to-collect debt securities at amortised cost	–	317,434	1,137,226	3,895,507	1,261,739	–	–	6,611,906
Other assets	10	339,983	5,974	5,531	3,649	–	85,392	440,539
Gross foreign exchange contracts	–	594,761	65,474	–	–	–	–	660,235
Total financial assets	1,677,521	6,543,354	4,293,811	6,542,028	7,227,221	13,170,732	401,065	39,855,732
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	50,342	230,537	90,000	–	–	–	–	370,879
Customer deposits at amortised cost	12,635,712	6,351,869	8,817,375	3,994,963	3,602	–	–	31,803,521
Unsecured bank loans at amortised cost	–	1,551,774	–	–	–	–	–	1,551,774
Lease liabilities	–	4,633	9,034	39,877	72,660	10,233	–	136,437
Other liabilities	1,534	365,266	12,306	8,363	84	–	153,238	540,791
Gross foreign exchange contracts	–	593,848	67,438	–	–	–	–	661,286
Total financial liabilities	12,687,588	9,097,927	8,996,153	4,043,203	76,346	10,233	153,238	35,064,688
Net liquidity gap	(11,010,067)	(2,554,573)	(4,702,342)	2,498,825	7,150,875	13,160,499	247,827	4,791,044

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

	31 December 2021 (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	1,042,204	3,278,839	–	–	–	–	–	4,321,043
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	1,614,325	676,015	–	–	–	2,290,340
Gross loans and advances and receivables	583,355	1,680,795	1,177,633	2,610,649	6,180,010	13,756,324	262,713	26,251,479
Equity investments at fair value through other comprehensive income	–	–	–	–	–	–	6,804	6,804
Gross held-to-collect debt securities at amortised cost	–	281,031	1,340,646	3,611,281	1,246,757	–	–	6,479,715
Other assets	37	112,345	6,314	5,152	2,825	–	60,916	187,589
Gross foreign exchange contracts	–	589,682	344,645	–	–	–	–	934,327
Total financial assets	1,625,596	5,942,692	4,483,563	6,903,097	7,429,592	13,756,324	330,433	40,471,297
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	86,562	239,076	90,000	50,000	–	–	–	465,638
Customer deposits at amortised cost	12,826,136	5,854,040	10,289,052	3,198,869	7,240	–	–	32,175,337
Unsecured bank loans at amortised cost	–	1,579,636	–	–	–	–	–	1,579,636
Lease liabilities	–	4,510	8,618	33,733	77,521	12,815	–	137,197
Other liabilities	1,404	127,741	11,363	4,519	192	–	164,547	309,766
Gross foreign exchange contracts	–	591,530	347,994	–	–	–	–	939,524
Total financial liabilities	12,914,102	8,396,533	10,747,027	3,287,121	84,953	12,815	164,547	35,607,098
Net liquidity gap	(11,288,506)	(2,453,841)	(6,263,464)	3,615,976	7,344,639	13,743,509	165,886	4,864,199

32. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

Risk management structure

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

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

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk management

Interest rate risk in banking book ("IRRBB") is internally defined as current or prospective risk arising from adverse movements in market interest rates to the Group's positions in the banking book. Changes in market interest rate affect economic value of interest-bearing assets, liabilities 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 with the right to prepay or early repay one's assets or liabilities such that cash flows related to such financial contracts are altered.

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

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

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

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

As at 30 June 2022, if RMB had strengthened or weakened by 100 basis points against HKD with all other variables held constant, the Group's equity would have increased or decreased by HK$12 million (31 December 2021: HK$12 million) mainly as a result of foreign exchange impact arising from the net structural position of RMB denominated operating capital.

(b) Price risk

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

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

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

Credit risk management

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

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

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management (Continued)

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and its capital resources. Its policy on connected lending exposures defines and states connected parties, statutory and applicable connected lending limits, types of connected transactions, taking of collateral, the capital adequacy treatment, and detailed procedures and controls for monitoring connected lending exposures. In general, interest rates and other terms and conditions applying to connected lending should not be more favourable than those of the loans offered to non-connected borrowers under similar circumstances. The terms and conditions should be determined on normal commercial terms at arm's length and in the ordinary course of business of the Group.

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

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

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

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

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

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

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

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

32. 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 Boards of Public Bank (Hong Kong) and Public Finance or committees delegated by the respective Boards.

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

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

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

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

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

Contingency funding plan is formulated to address liquidity needs at different stages including the mechanism for the detection of early warning signals of potential crisis at early stage and obtaining of emergency funding in bank-run scenario at later stage. Designated roles and responsibilities of the Crisis Management Team, departments and business units and their emergency contact information are documented clearly in contingency funding plan policy as part of business continuity planning, and contingency funding measures are in place to set priorities of funding arrangements with counterparties, to set procedures for intraday liquidity risk management and intra-group funding support, to manage media relationship and to communicate with internal and external parties during a liquidity crisis. The stress-testing results are updated and reported to Senior Management regularly and the results such as the survival period for positive cash-flow mismatches are used in contingency funding planning and determination of the required level of liquidity cushion. Based on the results of liquidity stress-testing, standby facilities and liquid assets are maintained to provide liquidity to meet unexpected and material cash outflows in stressed situations.

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

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

Regulatory liquidity ratios

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

	For the six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Liquidity Maintenance Ratio		
– Public Bank (Hong Kong) Group	**50.8%**	53.3%
– Public Bank (Hong Kong)	**49.3%**	51.8%
– Public Finance	**84.2%**	85.0%
Core Funding Ratio		
– Public Bank (Hong Kong) Group	**146.6%**	143.2%
– Public Bank (Hong Kong)	**145.0%**	140.8%

The average liquidity maintenance ratio and core funding ratio are computed using the arithmetic mean of each calendar month’s average ratio as reported in the return relating to the liquidity position submitted to the HKMA.

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management (Continued)

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

Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, human and system errors or from external events.

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

Cyber security risk management

Cyber security risk is the risk of loss resulting from a cyber attack or information security breach on the 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.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

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

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

Capital adequacy ratios

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

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Public Bank (Hong Kong):		
Consolidated CET1 Capital Ratio	**23.3%**	22.6%
Consolidated Tier 1 Capital Ratio	**23.3%**	22.6%
Consolidated Total Capital Ratio	**24.0%**	23.3%

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

Capital conservation buffer (CCB)

Public Bank (Hong Kong) Group is subject to the 2.5% CCB ratio effective from 1 January 2019.

Countercyclical capital buffer (CCyB)

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

As at 30 June 2022, Public Bank (Hong Kong) Group has reserved a capital buffer, inclusive of CCyB ratio of 1.0%, to the private sector credit exposures in Hong Kong.

Notes to Interim Financial Statements

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Countercyclical capital buffer (CCyB) (Continued)

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

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

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

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.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Leverage ratio (Continued)

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

Principal subsidiaries and basis of consolidation

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

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

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

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

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

33. COMPARATIVE FIGURES

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

Management Discussion and Analysis

OVERVIEW

During the period under review, the economy of Hong Kong was adversely affected by the fifth wave of COVID-19 pandemic though the situation improved in the second quarter of 2022 with lower number of local infected cases reported and reopening of business activities.

The US Federal Reserve exited its asset purchase programme and raised its benchmark rate by 150 basis points in the first half of 2022 to combat high inflation, but ample market liquidity was observed in Hong Kong and HKD interest rates remained low relative to USD interest rates. The stock market remained volatile amidst pandemic situation, escalating global interest rates, volatility in commodity prices, and prolonged Russia-Ukraine conflict.

Under the aforesaid challenging operating environment, the Group conducted its loan business cautiously with strategic focus on secured lending segments at reasonable interest yields to contain credit risk whilst maintaining disciplined cost control. The Group has allocated additional resources to drive the digitalisation process of its financial services and business growth via electronic channels to pursue long-term business growth with sustainable profit growth.

FINANCIAL REVIEW

Revenue and earnings

For the six months ended 30 June 2022, the Group's profit after tax decreased by HK$53.1 million or 21.5% to HK$193.3 million as compared to the corresponding period in 2021.

The Group's basic earnings per share for the six months ended 30 June 2022 was HK$0.18. The Board has declared an interim dividend of HK$0.05 per share on 28 June 2022, payable on 3 August 2022.

During the period under review, total interest income of the Group decreased by HK$34.1 million or 4.7% to HK$694.7 million contributed mainly from the decrease in interest income from loans under the fifth wave of pandemic in Hong Kong with subdued loan demand; whilst total interest expense decreased by HK$2.4 million or 2.6% to HK$88.7 million mainly due to decrease in average balance of customer deposits with limited funding need for lending activities. As a result, the Group's net interest income decreased by HK$31.7 million or 5.0% to HK$606.0 million. Fees and commission income decreased by HK$16.8 million or 16.2% to HK$87.4 million driven by the reduced stock market turnover in the period under review. Other operating income of the Group decreased by HK$5.3 million or 20.3% to HK$20.8 million which was attributed to a lower gain from dealing in foreign currencies in the period under review.

Operating expenses of the Group decreased by HK$9.8 million or 2.3% to HK$412.3 million mainly due to the decrease in staff expenses.

Fair value of investment properties decreased by HK$2.2 million during the period under review as compared to a revaluation gain of HK$3.6 million in the corresponding period of last year.

Credit loss expense increased by HK$13.4 million or 27.6% to HK$61.9 million mainly due to the increase in credit charges for hire purchase loans with higher loan delinquency coupled with decreased transport licence value as the operating environment was adversely affected by the COVID-19 pandemic during the period under review.

FINANCIAL REVIEW (Continued)

Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) recorded a decrease of HK$1.06 billion or 4.1% to HK$25.11 billion as at 30 June 2022 from HK$26.17 billion as at 31 December 2021. The Group's customer deposits declined by HK$371.8 million or 1.2% to HK$31.80 billion as at 30 June 2022 from HK$32.18 billion as at 31 December 2021.

Total assets of the Group stood at HK$43.24 billion as at 30 June 2022.

Business performance of key subsidiaries

Public Bank (Hong Kong)

During the period under review, total loans and advances (including trade bills) of Public Bank (Hong Kong), a licensed bank and a direct subsidiary of the Company, decreased by HK$851.5 million or 4.2% to HK$19.69 billion as at 30 June 2022 from HK$20.54 billion as at 31 December 2021. Customer deposits (excluding deposits from a subsidiary) increased by HK$66.2 million or 0.2% to HK$27.81 billion as at 30 June 2022 from HK$27.74 billion as at 31 December 2021. Impaired loans to total loans ratio of Public Bank (Hong Kong) was 1.00% as at 30 June 2022.

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

Public Finance

Total loans and advances of Public Finance, a deposit-taking company and a direct subsidiary of Public Bank (Hong Kong), decreased by HK$197.3 million or 3.8% to HK$5.03 billion as at 30 June 2022 from HK$5.22 billion as at 31 December 2021. Customer deposits decreased by HK$407.3 million or 8.7% to HK$4.28 billion as at 30 June 2022 from HK$4.69 billion as at 31 December 2021. Impaired loans to total loans ratio of Public Finance was 1.32% as at 30 June 2022.

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

Segmental information

The Group's businesses comprise three main segments: (i) retail and commercial banking businesses, (ii) wealth management services, stockbroking and securities management, and (iii) other businesses. For the period under review, 94.9% of the Group's operating income and 97.2% of the profit before tax were contributed by retail and commercial banking businesses. When compared to the first half of 2021, the Group's operating income from retail and commercial banking businesses decreased by HK$39.8 million or 5.5% to HK$677.8 million mainly due to the decrease in net interest income of the Group, whilst the Group's operating income from wealth management services, stockbroking and securities management decreased by HK$14.5 million or 33.4% to HK$28.9 million driven by the lower stock market turnover. Profit before tax from retail and commercial banking businesses decreased by HK$42.5 million or 15.5% to HK$231.1 million, whilst profit before tax from wealth management services, stockbroking and securities management decreased by HK$15.2 million or 63.9% to HK$8.6 million during the period under review.

Management Discussion and Analysis

FINANCIAL REVIEW (Continued)

Group's branch network

As at 30 June 2022, Public Bank (Hong Kong) had a branch network of 32 branches in Hong Kong and 5 branches in Shenzhen in the People's Republic of China to provide a broad range of commercial and retail banking services. Public Finance had a network of 42 branches in Hong Kong to focus on its core business in personal lending. Winton Financial, another operating subsidiary of the Company which operates under a money lenders licence, had a network of 3 branches in Hong Kong to provide personal financing to its target customer segment. In total, the Group had a combined branch network of 82 branches as at 30 June 2022 to serve its customers.

Significant investments

The Company has a significant investment, with a value of 5% or more of the Company's total assets, in Public Bank (Hong Kong). The principal businesses of Public Bank (Hong Kong) are in the provision of retail and commercial banking businesses. The investment cost in the subsidiary amounted to HK$6.59 billion or 71.0% of total assets of the Company, and such cost reflected the fair value of the Company's investment. Public Bank (Hong Kong)'s business strategy focuses on its loan development, deposit-taking, stockbroking and bancassurance business operations; and continues to strike a balance between pursuing business growth and maintaining sound liquidity and asset quality. Public Bank (Hong Kong) and its subsidiaries recorded a profit of HK$185.7 million on consolidated basis, which represented an annualised return of 5.6% in regard to the Company's investment. Dividend income received from Public Bank (Hong Kong) was HK$137.8 million during the period under review. Further details of such investment (including the number and percentage of shares held) in Public Bank (Hong Kong) are shown in note 1 to the interim financial statements.

Contingent liabilities and commitments

The Group had no material contingent liabilities (other than those in the normal course of its banking and finance businesses related to treasury and trade finance activities and loan commitments as disclosed in the notes to the interim financial statements) as at the end of the period under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the period under review. There was no material funding required for capital expenditure and its commitments. The Group did not have plans for material investments or purchases of capital assets in the near term. As at 30 June 2022, there was no charge over the assets of the Group. There was also no important event affecting the Group which had occurred since 30 June 2022.

OPERATIONAL REVIEW

Funding and capital management

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

The Group relies principally on its internally generated capital, customer deposits and deposits from financial institutions to fund its retail and commercial banking businesses and its consumer financing business. The Group's cash and cash equivalents are mainly denominated in HKD or USD. Its bank borrowings are in the form of term loans denominated in HKD at floating interest rates and stood at approximately HK$1.55 billion as at 30 June 2022. Based on the level of bank borrowings as compared to the equity of the Group, the Group's gearing ratio remained at a healthy level of 0.18 times as at 30 June 2022, which was relatively the same as compared to the position of 31 December 2021. The bank borrowings as at 30 June 2022 had remaining maturity periods of less than three years. In the normal course of its commercial banking business, Public Bank (Hong Kong) had entered into foreign exchange swaps and forward contracts to reduce the foreign exchange rate risk exposures of the Group. Exposures to fluctuations in foreign exchange rates were minimal. There were no foreign currency investments hedged by foreign currency borrowings and other hedging instruments during the period under review.

OPERATIONAL REVIEW (Continued)

Funding and capital management (Continued)

The consolidated CET1 capital ratio and total capital ratio of Public Bank (Hong Kong) Group (inclusive of Public Bank (Hong Kong) and Public Finance) stood at 23.3% and 24.0% respectively as at 30 June 2022.

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

Asset quality and credit management

The Group's impaired loans to total loans ratio was 1.10% as at 30 June 2022. The Group will continue to manage credit risk cautiously and undertake prudent yet flexible business development strategies to strike a balance between business/income growth and prudent risk management.

There were nil direct exposures to Russia and Ukraine as the core operations of the Group are principally based in Hong Kong.

Human resources management

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

The objective of the Group's human resources management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives taking into account both business performance and the adherence to the Group's culture and behavioural standards, and to promote career development and progression within the Group. Despite COVID-19 pandemic, staff enrolled in external training courses, seminars, professional and technical courses via electronic means in order to update their technical knowledge and skills, to increase their awareness of the market and regulatory developments, and to improve their management and business skills. Staff also participated in social/charitable activities organised by the Group/non-profit making organisations to promote team spirit and social responsibility to the community.

As at 30 June 2022, the Group's staff force stood at 1,215 employees. For the six months ended 30 June 2022, the Group's total staff related costs amounted to HK$258.0 million.

Management Discussion and Analysis

PROSPECTS

The economies of Hong Kong and Mainland China are anticipated to improve slightly in the second half of 2022, but the prospects remain uncertain with a recent re-escalation of COVID-19 infected cases in Hong Kong and the unresolved Russia-Ukraine conflicts. The risk appetites for corporate investments/business expansion and individuals' private consumption are expected to remain conservative in the near term with loan growth momentum being constrained in both Hong Kong and Mainland China, but the situation may be improved when Mainland China borders are re-opened to Hong Kong travellers.

In view of the volatile commodity price and high inflationary pressure, the US Federal Reserve exited its asset purchase programme and raised its benchmark rate by 150 basis points in the first half of 2022. Further upward adjustments of the US Federal Reserve's benchmark rate are highly anticipated in the second half of the year to reduce inflation. Given the ample market liquidity, the increase of HKD interest rates was at a slower pace as compared to USD interest rates. Nevertheless, the escalation of HKD interest rates is expected to be more vigorous in the second half of 2022 as the aggregate balance of banks kept with the HKMA decreased driven by the HKMA's interventions to defend the local currency from depreciation. There should be potential room for increase of HKD best lending rate before the end of 2022 to reflect the HKD funding cost and the pressure on net interest margin could be then alleviated to certain extent.

Competition in the banking industry in Hong Kong is also expected to intensify with the growing scale of virtual banks and the usage of technology with higher transparency of product pricing in the industry, which will continue to exert pressure on the pricing of banking and financing products. The increases in compliance-related and system-related costs in meeting the regulatory and supervisory requirements are expected to impact the cost efficiency and earnings growth of banks and financial institutions in Hong Kong. Despite the foregoing, the Group will continue to pursue long-term business and profitability growth in line with its corporate mission and goals. The Group will continue to adopt prudent capital management and liquidity risk management to preserve adequate buffer to meet the challenges ahead.

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

The Group will continue to focus on expanding its retail and commercial banking businesses and its consumer financing business through its extensive branch network of Public Bank (Hong Kong), Public Finance and Winton Financial, supporting its growth in loan, deposit mobilisation and fee-based businesses, and implementing appropriate marketing strategies at reasonable costs. The Group will continue to optimise and refine the existing products and services in the near term to grow its retail and commercial lending businesses and consumer financing business. Moving forward, the Group will allocate more resources to drive the digitalisation process of its financial services and business growth via electronic channels in line with its fintech development plan.

The Group will stay vigilant of the uncertainties on the road to recovery ahead and strive to expand its banking and financing businesses with disciplined cost control and prudent risk management in the second half of 2022. The Group is also committed to fostering a healthy and strong corporate culture to enhance the cohesiveness with the shared vision and values of the Group.

Other Information

INTERIM DIVIDEND

The Board has on 28 June 2022 declared an interim dividend of HK$0.05 (2021: HK$0.05) per share payable on 3 August 2022 to shareholders whose names appear on the register of members of the Company on 20 July 2022.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

In accordance with Rule 13.51B(1) of the Listing Rules, the changes to information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) since publication of the Group's Annual Report 2021 up to 15 July 2022 (being the date of approval of the Group's 2022 Interim Report) are set out below:

Changes in other directorships and major appointments

Mr. Tang Wing Chew resigned and Ms. Cheah Kim Ling has been appointed as an Independent Non-Executive Director, the Chairman of the Audit Committee and a member of the Nomination and Remuneration Committee ("NRC") of the Company on 25 February 2022.

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2022, the Directors' interests and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules were as follows:

Other Information

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

Long positions in ordinary shares of the Company and associated corporations

Interests in	Name of Directors	Number of ordinary shares: Directly beneficially owned	Through spouse or minor children	Through controlled corporations	Other interests	Total	Percentage of interests in the issued share capital %
1. The Company	Tan Sri Dato' Sri Dr. Teh Hong Piow	–	–	804,017,920	–	804,017,920	73.2312
	Tan Yoke Kong	20,000	20,000	–	*10,000	50,000	0.0046
	Chong Yam Kiang	20,000	–	–	–	20,000	0.0018
	Dato' Chang Kat Kiam	300,000	–	–	–	300,000	0.0273
2. Public Bank, the ultimate holding company	Tan Sri Dato' Sri Dr. Teh Hong Piow	123,556,410	–	4,420,974,855	–	4,544,531,265	23.4125
	Tan Yoke Kong	1,000	–	–	–	1,000	0.0000
	Chong Yam Kiang	94,200	–	–	–	94,200	0.0005
	Dato' Chang Kat Kiam	628,180	–	–	–	628,180	0.0032
	Lee Chin Guan	1,000,150	–	–	–	1,000,150	0.0052
	Lai Wan	–	93,270	–	–	93,270	0.0005
	Lim Chao Li	151,710	–	–	–	151,710	0.0008
	Cheah Kim Ling	–	51,960	–	–	51,960	0.0003
3. Campu Lonpac Insurance Plc, a fellow subsidiary	Tan Sri Dato' Sri Dr. Teh Hong Piow	–	–	3,850,000	–	3,850,000	55.0000

* *Jointly held with another person*

Tan Sri Dato' Sri Dr. Teh Hong Piow, by virtue of his direct and indirect interest of 4,544,531,265 shares in Public Bank, is deemed to be interested in the shares of the Company and its associated corporations as disclosed above, to the extent Public Bank has interests.

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

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

As at 30 June 2022, the register of interests and short positions in the shares and underlying shares of the Company kept under section 336 of the SFO showed that, other than the interests of Tan Sri Dato' Sri Dr. Teh Hong Piow as disclosed above, the following shareholders had interests of 5% or more in the issued share capital of the Company:

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

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

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

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

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

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

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

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

Other Information

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2022.

CORPORATE GOVERNANCE

None of the Directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the 2022 Interim Report, in compliance with the code provisions ("Code Provision(s)") of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules, except for the deviation under Code Provision F.2.2 of the CG Code as explained below with considered reason for such deviation.

Under Code Provision F.2.2 of the CG Code, the chairman of the board shall attend the annual general meeting ("AGM"). Tan Sri Dato' Sri Dr. Teh Hong Piow, the Board Chairman of the Company, was absent from the 2022 AGM of the Company held in May 2022 due to other engagement. The 2022 AGM was chaired by the Executive Director, Mr. Tan Yoke Kong, with the consent of members present. The Chairmen of the Company's Audit Committee and NRC, and the respective Chairmen of the Board Committees of Public Bank (Hong Kong) and Public Finance who were in Malaysia also participated in the 2022 AGM by electronic means due to the outbreak of COVID-19 to answer questions raised therein, if any.

COMPLIANCE WITH MODEL CODE

The Company has adopted its own code for securities transactions by Directors on terms no less exacting than the required standards set out in the Model Code contained in Appendix 10 of the Listing Rules. All the then Directors as at 30 June 2022 confirmed, following specific enquiry by the Company, that they have complied with the required standards as set out in the Model Code and the Company's own code for securities transactions by Directors throughout the period under review.

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company comprises three Independent Non-Executive Directors, namely Ms. Cheah Kim Ling, Mr. Lee Chin Guan and Mr. Lim Chao Li, and two Non-Executive Directors, namely Mr. Lai Wan and Mr. Quah Poh Keat. The 2022 Interim Report has been reviewed by the Audit Committee.

PUBLICATION OF 2022 INTERIM REPORT

The 2022 Interim Report in electronic form is now available on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.publicfinancial.com.hk. Printed copies are also available upon written request to the Company c/o the Company's Share Registrar, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong on or before 14 August 2022 or 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong from 15 August 2022 onwards specifying the name, address and request to receive the Group's Interim Report in printed copy.

APPRECIATION

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

By Order of the Board
Public Financial Holdings Limited
Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman

15 July 2022