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

(Incorporated in Bermuda with limited liability)

(Stock code: 626; Website: www.publicfinancial.com.hk)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

The Board of Directors (the “Board”) of Public Financial Holdings Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2022 with comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
	<i>Notes</i>	2022	2021
		HK\$'000	HK\$'000
Interest income	8	1,500,836	1,449,738
Interest expense	8	(349,923)	(167,827)
NET INTEREST INCOME		1,150,913	1,281,911
Fees and commission income	9	179,794	187,438
Fees and commission expenses	9	(1,568)	(2,528)
Net fees and commission income		178,226	184,910
Other operating income	10	44,805	48,287
OPERATING INCOME		1,373,944	1,515,108
Operating expenses	11	(823,618)	(831,120)
Changes in fair value of investment properties		(13,222)	8,995
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		537,104	692,983
Credit loss expenses	12	(130,595)	(90,809)

* For identification purpose only

		Year ended 31 December	
		2022	2021
	<i>Notes</i>	HK\$'000	HK\$'000
PROFIT BEFORE TAX		406,509	602,174
Tax	<i>13</i>	<u>(77,812)</u>	<u>(105,713)</u>
PROFIT FOR THE YEAR		<u>328,697</u>	<u>496,461</u>
ATTRIBUTABLE TO:			
Owners of the Company		<u>328,697</u>	<u>496,461</u>
EARNINGS PER SHARE (HK\$)	<i>15</i>		
Basic		<u>0.299</u>	<u>0.452</u>
Diluted		<u>0.299</u>	<u>0.452</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE YEAR	328,697	496,461
OTHER COMPREHENSIVE INCOME FOR THE YEAR		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations, net of tax	<u>(77,758)</u>	<u>27,289</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>250,939</u>	<u>523,750</u>
ATTRIBUTABLE TO:		
Owners of the Company	<u>250,939</u>	<u>523,750</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	31 December 2022 HK\$'000	31 December 2021 HK\$'000
ASSETS			
Cash and short term placements		3,406,271	4,320,631
Placements with banks and financial institutions maturing after one month but not more than twelve months		1,826,570	2,290,111
Derivative financial instruments		343	1,551
Loans and advances and receivables	16	24,679,582	26,067,203
Equity investments at fair value through other comprehensive income		6,804	6,804
Held-to-collect debt securities at amortised cost	17	7,437,495	6,479,066
Investment properties		429,315	366,935
Property and equipment		190,263	186,742
Land held under finance leases		732,909	672,293
Right-of-use assets		106,895	133,358
Deferred tax assets		36,388	38,845
Tax recoverable		26,183	1,903
Goodwill	18	2,774,403	2,774,403
Intangible assets		718	718
Other assets		263,792	187,589
TOTAL ASSETS		41,917,931	43,528,152
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		497,157	465,638
Derivative financial instruments		2,002	6,748
Customer deposits at amortised cost		30,446,412	32,175,337
Dividends payable		120,771	164,687
Unsecured bank loans at amortised cost		1,552,087	1,579,636
Lease liabilities		110,745	137,197
Current tax payable		52,136	72,537
Deferred tax liabilities		49,767	47,298
Other liabilities		442,274	309,766
TOTAL LIABILITIES		33,273,351	34,958,844
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		109,792	109,792
Reserves		8,534,788	8,459,516
TOTAL EQUITY		8,644,580	8,569,308
TOTAL EQUITY AND LIABILITIES		41,917,931	43,528,152

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Share capital	Share premium	Capital redemption reserve	Contributed surplus	Property revaluation reserve	Regulatory reserve [#]	Retained profits	Translation reserve	Total
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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 year		-	-	-	-	-	-	328,697	-	328,697
Other comprehensive income		-	-	-	-	-	-	-	(77,758)	(77,758)
Transfer from regulatory reserve to retained profits		-	-	-	-	-	(8,659)	8,659	-	-
Dividends for 2022	14(a)	-	-	-	-	-	-	(175,667)	-	(175,667)
As at 31 December 2022		<u>109,792</u>	<u>4,013,296</u>	<u>829</u>	<u>96,116</u>	<u>3,982</u>	<u>46,153</u>	<u>4,371,841</u>	<u>2,571</u>	<u>8,644,580</u>

		Share capital	Share premium	Capital redemption reserve	Contributed surplus	Property revaluation reserve	Regulatory reserve [#]	Retained profits	Translation reserve	Total
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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 year		-	-	-	-	-	-	496,461	-	496,461
Other comprehensive income		-	-	-	-	-	-	-	27,289	27,289
Transfer from retained profits to regulatory reserve		-	-	-	-	-	1,532	(1,532)	-	-
Dividends for 2021	14(a)	-	-	-	-	-	-	(219,583)	-	(219,583)
As at 31 December 2021		<u>109,792</u>	<u>4,013,296</u>	<u>829</u>	<u>96,116</u>	<u>3,982</u>	<u>54,812</u>	<u>4,210,152</u>	<u>80,329</u>	<u>8,569,308</u>

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation in September 1991 over the nominal value of the Company's shares issued in exchange therefor.

Deducted from the contributed surplus of the Group as at 31 December 2022 was positive goodwill of HK\$98,406,000 (31 December 2021: HK\$98,406,000), which arose from the acquisition of certain subsidiaries in prior years.

[#] 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 (the "HKMA").

NOTES TO FINANCIAL STATEMENTS

1. STATUTORY FINANCIAL STATEMENTS

The financial information set out in this announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2022. Certain financial information in this announcement is extracted from the statutory financial statements for the year ended 31 December 2022, which will be available in the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company in around late-February 2023.

The figures in this announcement of the results of the Group for the year ended 31 December 2022 have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work of Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (a collective term which includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int")) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have also complied with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). They also contain certain disclosure information required under the Banking (Disclosure) Rules issued by the HKMA.

These financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss ("FVPL") and equity investments at fair value through other comprehensive income ("FVOCI").

3. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 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).

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 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 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 is based on the consolidation of 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.

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 ratio for 2021 and 2022 is 2.5%, whilst the required countercyclical capital buffer 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 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 current year's financial statements:

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

The nature and impact of the amendments are described below.

Amendments to HKFRS 3 – Reference to the Conceptual Framework

Amendments to HKFRS 3 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 also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combinations that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.

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 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.

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

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the costs of fulfilling the contract comprise the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs (e.g. the costs of direct labour and materials) of fulfilling that contract and an allocation of other costs that relate directly in fulfilling that contract (e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). 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 has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations as at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance 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 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:

- The amendments to HKFRS 1 permit 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. These amendments are also applied to an associate or joint venture that elects to apply paragraph D16(a) of HKFRS 1. These amendments had no impact on the financial statements of the Group as it is not a first-time adopter.
- The amendment to HKFRS 9 *Financial Instruments* 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. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

- The amendment to HKFRS 16 *Leases* removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This amendment removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.
- The amendments to HKAS 41 remove the requirement to exclude cash flows for taxation when measuring the fair value of assets within the scope of HKAS 41. These amendments had no impact on the financial statements of the Group as it did not have assets in scope of HKAS 41 as at the reporting date.

Issued but not yet effective HKFRSs

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

- | | |
|---|---|
| • Amendments to HKAS 1 and HKFRS Practice Statement 2 | <i>Disclosure of Accounting Policies</i> ¹ |
| • Amendments to HKAS 8 | <i>Definition of Accounting Estimates</i> ¹ |
| • Amendments to HKAS 1 | <i>Non-current Liabilities with Covenants</i> ^{2,4} |
| • Amendments to HKAS 1 | <i>Classification of Liabilities as Current or Non-current</i> ^{2,4} |
| • Amendments to HKFRS 10 and HKAS 28 (2011) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³ |
| • Amendments to HKAS 12 | <i>Deferred tax related to Assets and Liabilities arising from a Single Transaction</i> ¹ |
| • Amendments to HKFRS 16 | <i>Lease Liability in a Sale and Leaseback</i> ² |

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

² Effective for annual periods beginning on or after 1 January 2024

³ No mandatory effective date determined yet but available for adoption

⁴ As a consequence of the amendments to HKAS 1, Hong Kong Int 5 (Revised) *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 and August 2022 to align with the corresponding wordings with no change in conclusion

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

Amendments to HKAS 1 and HKFRS Practice Statement 2 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 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.

Amendments to HKAS 1 *Non-current Liabilities with Covenants* ("2022 amendments") clarify how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. The 2022 amendments improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants. The 2022 amendments clarify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current. The 2022 amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application of the 2022 amendments is permitted. The 2022 amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* ("2020 amendments") clarify the requirements on classifying liabilities as current or non-current. The 2020 amendments provide clarification that if an entity's right to defer settlement of a liability is subject to compliance with future covenants, the entity has a right to defer settlement of the liability even if it does not comply with those covenants at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The 2020 amendments also clarify the situations that are considered as a settlement of a liability. The 2020 amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application of the 2020 amendments is permitted. However, an entity that applies the 2020 amendments early is also required to apply the 2022 amendments, and vice versa. The 2020 amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to HKAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are intended to improve the requirements for sale and leaseback transactions in HKFRS 16. They do not change the accounting for leases unrelated to sale and leaseback transactions. The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment allowances on loans and advances and receivables

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's expected credit loss ("ECL") calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns probabilities of default to the individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets based on risk characteristics of the customers and by product types when their ECL is assessed on a collective basis

- Development of ECL models, including the various formulas and the choice of inputs over determination of the period over which the entity is exposed to credit risk based on the behavioural life of the credit exposures, loss given default and collateral recovery of the credit exposures
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on probabilities of default, exposures at default and losses given default
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash generating units ("CGUs") to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2022 and 31 December 2021 was HK\$2,774,403,000, of which HK\$832,321,000 was attributed to Public Bank (Hong Kong) and HK\$1,942,082,000 was attributed to Public Finance. Further details are set out in note 18 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as a non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease the assets for additional terms of two to three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is beyond its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

Property lease classification – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the risks and rewards incidental to ownership of these properties and accounts for the contracts as operating leases.

7. 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.

The following table discloses the revenue and profit information for operating segments for the years ended 31 December 2022 and 31 December 2021.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue								
External:								
Net interest income/(expense)	1,150,987	1,282,000	(74)	(89)	–	–	1,150,913	1,281,911
Net fees and commission income	122,057	119,218	56,169	65,692	–	–	178,226	184,910
Other operating income	28,338	33,559	338	2	16,129	14,726	44,805	48,287
Operating income	1,301,382	1,434,777	56,433	65,605	16,129	14,726	1,373,944	1,515,108
Operating profit/(loss) after credit loss expenses before tax	402,136	563,965	15,794	28,451	(11,421)	9,758	406,509	602,174
Tax							(77,812)	(105,713)
Profit for the year							328,697	496,461
Other segment information								
Depreciation of property and equipment and land held under finance leases	(44,821)	(41,741)	–	–	–	–	(44,821)	(41,741)
Depreciation of right-of-use assets	(57,508)	(60,199)	–	–	–	–	(57,508)	(60,199)
Changes in fair value of investment properties	–	–	–	–	(13,222)	8,995	(13,222)	8,995
Credit loss expenses	(130,595)	(90,809)	–	–	–	–	(130,595)	(90,809)
Net losses on disposal of property and equipment	(57)	(7)	–	–	–	–	(57)	(7)

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

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets other than intangible assets and goodwill	38,204,199	39,950,012	446,697	395,219	429,343	367,052	39,080,239	40,712,283
Intangible assets	–	–	718	718	–	–	718	718
Goodwill	2,774,403	2,774,403	–	–	–	–	2,774,403	2,774,403
Segment assets	40,978,602	42,724,415	447,415	395,937	429,343	367,052	41,855,360	43,487,404
Unallocated assets: Deferred tax assets and tax recoverable							62,571	40,748
Total assets							41,917,931	43,528,152
Segment liabilities	32,895,093	34,556,925	149,267	111,985	6,317	5,412	33,050,677	34,674,322
Unallocated liabilities: Deferred tax liabilities and tax payable							101,903	119,835
Dividends payable							120,771	164,687
Total liabilities							33,273,351	34,958,844
Other segment information								
Additions to non-current assets – capital expenditure	184,617	29,481	–	–	–	–	184,617	29,481

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 years ended 31 December 2022 and 31 December 2021.

	2022 HK\$'000	2021 HK\$'000
Segment revenue from external customers:		
Hong Kong	1,270,054	1,403,743
Mainland China	103,890	111,365
	1,373,944	1,515,108

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 31 December 2022 and 31 December 2021.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Non-current assets:		
Hong Kong	4,209,104	4,106,064
Mainland China	25,399	28,385
	<u>4,234,503</u>	<u>4,134,449</u>

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.

8. INTEREST INCOME AND EXPENSE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest income from:		
Loans and advances and receivables	1,335,062	1,366,108
Short term placements and placements with banks	83,459	43,955
Held-to-collect debt securities at amortised cost	82,315	39,675
	<u>1,500,836</u>	<u>1,449,738</u>
Interest expense on:		
Deposits from banks and financial institutions	7,384	1,085
Deposits from customers	304,454	142,065
Bank loans	35,676	21,780
Others	2,409	2,897
	<u>349,923</u>	<u>167,827</u>

Interest income and interest expense for the year ended 31 December 2022, calculated using the effective interest method for financial assets and financial liabilities which are not designated at FVPL, amounted to HK\$1,500,836,000 and HK\$349,923,000 (2021: HK\$1,449,738,000 and HK\$167,827,000) respectively.

9. NET FEES AND COMMISSION INCOME

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Fees and commission income:		
Retail and commercial banking	123,625	121,746
Wealth management services, stockbroking and securities management	56,169	65,692
	179,794	187,438
Less: Fees and commission expenses	(1,568)	(2,528)
	<u>178,226</u>	<u>184,910</u>

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.

10. OTHER OPERATING INCOME

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Gross rental income	16,203	14,798
Less: Direct operating expenses	(74)	(73)
Net rental income	16,129	14,725
Gains less losses arising from dealing in foreign currencies	22,229	34,555
Net losses on derivative financial instruments	(1,659)	(5,197)
	20,570	29,358
Net losses on disposal of property and equipment	(57)	(7)
Gain on termination of leases	490	1,524
Dividend income from listed investments	220	202
Dividend income from unlisted investments	35	35
Government subsidies	5,749	1,047
Others	1,669	1,403
	<u>44,805</u>	<u>48,287</u>

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

For the year ended 31 December 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 year ended 31 December 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 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 years ended 31 December 2022 and 31 December 2021.

11. OPERATING EXPENSES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Staff costs:		
Salaries and other staff costs	485,198	502,025
Pension contributions	26,850	23,716
Less: Forfeited contributions	(143)	(88)
Net contribution to retirement benefit schemes	26,707	23,628
	511,905	525,653
Other operating expenses:		
Depreciation of right-of-use assets	57,508	60,199
Depreciation of property and equipment and land held under finance leases	44,821	41,741
Auditors' remuneration	4,597	4,550
Administrative and general expenses	70,821	70,271
Others	133,966	128,706
Operating expenses before changes in fair value of investment properties	823,618	831,120

As at 31 December 2022 and 31 December 2021, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The credits for the years ended 31 December 2022 and 31 December 2021 arose in respect of staff who left the schemes during the years.

12. CREDIT LOSS EXPENSES

The following tables show the changes in ECL on financial instruments for the years recorded in the consolidated income statement.

	2022			Total HK\$'000
	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	
Net charge for/(write-back of) credit loss expenses:				
– loans and advances	(10,803)	10,271	130,276	129,744
– trade bills, accrued interest and other receivables	(97)	37	953	893
– cash and short term placements	(88)	–	–	(88)
– placements with banks and financial institutions	(40)	–	–	(40)
– held-to-collect debt securities at amortised cost	97	–	–	97
– loan commitments	(13)	–	–	(13)
– financial guarantees and letters of credit	2	–	–	2
	<u>(10,942)</u>	<u>10,308</u>	<u>131,229</u>	<u>130,595</u>

	2021			Total HK\$'000
	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	
Net charge for/(write-back of) credit loss expenses:				
– loans and advances	(13)	(2,153)	92,076	89,910
– trade bills, accrued interest and other receivables	107	–	944	1,051
– cash and short term placements	(193)	–	–	(193)
– placements with banks and financial institutions	52	–	–	52
– held-to-collect debt securities at amortised cost	(25)	–	–	(25)
– loan commitments	14	–	–	14
– financial guarantees and letters of credit	–	–	–	–
	<u>(58)</u>	<u>(2,153)</u>	<u>93,020</u>	<u>90,809</u>

13. TAX

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax charge:		
Hong Kong	59,430	86,964
Overseas	17,228	20,039
Deferred tax charge/(credit), net	1,154	(1,290)
	<u>77,812</u>	<u>105,713</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. 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:

	2022					
	Hong Kong		Mainland China		Total	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Profit before tax	<u>334,742</u>		<u>71,767</u>		<u>406,509</u>	
Tax at the applicable tax rate	55,233	16.5	17,941	25.0	73,174	18.0
Estimated tax effect of net expenses that are not deductible	4,638	1.4	-	-	4,638	1.1
Tax charge at the Group's effective rate	<u>59,871</u>	<u>17.9</u>	<u>17,941</u>	<u>25.0</u>	<u>77,812</u>	<u>19.1</u>
	2021					
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Profit before tax	<u>529,335</u>		<u>72,839</u>		<u>602,174</u>	
Tax at the applicable tax rate	87,340	16.5	18,210	25.0	105,550	17.5
Estimated tax effect of net expenses that are not deductible	149	-	14	-	163	-
Tax charge at the Group's effective rate	<u>87,489</u>	<u>16.5</u>	<u>18,224</u>	<u>25.0</u>	<u>105,713</u>	<u>17.5</u>

14. DIVIDENDS

(a) Dividends declared during the year

	2022 <i>HK\$ per ordinary share</i>	2021 <i>HK\$ per ordinary share</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
First interim dividend declared and paid	0.05	0.05	54,896	54,896
Second interim dividend declared	0.11	0.15	120,771	164,687
	<u>0.16</u>	<u>0.20</u>	<u>175,667</u>	<u>219,583</u>

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

	2022 <i>HK\$ per ordinary share</i>	2021 <i>HK\$ per ordinary share</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Second interim dividend in respect of the previous year	0.15	0.12	164,687	131,750

15. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit for the year of HK\$328,697,000 (2021: HK\$496,461,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2021: 1,097,917,618) during the year.

(b) Diluted earnings per share

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2022 and 31 December 2021.

16. LOANS AND ADVANCES AND RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Loans and advances to customers	24,784,214	26,154,174
Trade bills	5,368	11,989
Loans and advances, and trade bills	24,789,582	26,166,163
Accrued interest	83,188	72,416
Other receivables	24,872,770 9,535	26,238,579 12,900
Gross loans and advances and receivables	24,882,305	26,251,479
Less: Impairment allowances		
– specifically assessed	(84,823)	(65,752)
– collectively assessed	(117,900)	(118,524)
	(202,723)	(184,276)
Loans and advances and receivables	<u>24,679,582</u>	<u>26,067,203</u>

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.

Loans and advances and receivables are summarised as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Neither past due nor impaired loans and advances and receivables	23,315,258	25,443,428
Past due but not impaired loans and advances and receivables	1,245,696	560,052
Credit impaired loans and advances	305,536	234,512
Credit impaired receivables	15,815	13,487
Gross loans and advances and receivables	<u>24,882,305</u>	<u>26,251,479</u>

About 71% (31 December 2021: about 69%) of “Neither past due nor impaired loans and advances and receivables” were property mortgage loans and hire purchase financing secured by properties, taxi licences, public light bus licences and vehicles.

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

	2022		2021	
	Gross amount <i>HK\$'000</i>	Percentage of total loans and advances %	Gross amount <i>HK\$'000</i>	Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	79,989	0.32	53,091	0.21
One year or less but over six months	67,286	0.27	23,791	0.09
Over one year	117,502	0.48	118,101	0.45
Loans and advances overdue for more than three months	264,777	1.07	194,983	0.75
Rescheduled loans and advances overdue for three months or less	25,349	0.10	28,165	0.11
Impaired loans and advances overdue for three months or less	15,410	0.06	11,364	0.04
Total overdue and impaired loans and advances	305,536	1.23	234,512	0.90

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	1,142	471
One year or less but over six months	2,660	1,158
Over one year	11,833	11,792
Trade bills, accrued interest and other receivables overdue for more than three months	15,635	13,421
Impaired trade bills, accrued interest and other receivables overdue for three months or less	180	66
Total overdue and impaired trade bills, accrued interest and other receivables	15,815	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

	2022			2021		
	Hong Kong	Mainland	Total	Hong Kong	Mainland	Total
	HK\$'000	China	HK\$'000	HK\$'000	China	HK\$'000
		HK\$'000	HK\$'000		HK\$'000	HK\$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	<u>196,845</u>	<u>83,567</u>	<u>280,412</u>	<u>95,182</u>	<u>113,222</u>	<u>208,404</u>
Impairment allowances specifically assessed	<u>60,818</u>	<u>11,076</u>	<u>71,894</u>	<u>40,431</u>	<u>12,207</u>	<u>52,638</u>
Current market value and fair value of collateral			<u>331,496</u>			<u>259,176</u>
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	<u>236,245</u>	<u>85,106</u>	<u>321,351</u>	<u>133,141</u>	<u>114,858</u>	<u>247,999</u>
Impairment allowances specifically assessed	<u>73,747</u>	<u>11,076</u>	<u>84,823</u>	<u>53,545</u>	<u>12,207</u>	<u>65,752</u>
Current market value and fair value of collateral			<u>352,228</u>			<u>278,001</u>

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

- (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:**

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	<u>331,496</u>	<u>259,176</u>
Covered portion of overdue loans and advances	<u>197,675</u>	<u>147,671</u>
Uncovered portion of overdue loans and advances	<u>67,102</u>	<u>47,312</u>

The assets taken as collateral should satisfy the following criteria:

- The market value of the asset is readily determinable or can be reasonably established and verified.
- The asset is marketable and there exists a readily available secondary market for disposal of the asset.
- The Group's right to repossess the asset is legally enforceable without impediment.
- The Group is able to secure control over the asset if necessary.

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

- Central governments with a grading of Aa3 or above
- Unrated public sector enterprises
- Banks with a grading of Baa2 or above
- Unrated corporations
- Individual shareholders and directors of corporate customers

(d) Repossessed assets

As at 31 December 2022, the total value of repossessed assets of the Group amounted to HK\$61,796,000 (31 December 2021: HK\$34,145,000).

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

	2022		2021	
	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	<u>1,238,856</u>	<u>5.00</u>	<u>556,719</u>	<u>2.13</u>
Trade bills, accrued interest and other receivables overdue for three months or less	<u>6,840</u>		<u>3,333</u>	

(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:

	2022			
	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	5,859,207	1,493	1,369	5,862,069
Loans/financing derecognised or repaid during the year (other than write-offs)	(6,893,566)	(55,895)	(71,267)	(7,020,728)
Transfer to 12-month expected credit loss (Stage 1)	81,484	(72,766)	(8,718)	-
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(722,840)	723,224	(384)	-
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(288,663)	(74,204)	362,867	-
Total transfer between stages	(930,019)	576,254	353,765	-
Write-offs	-	-	(210,515)	(210,515)
As at 31 December 2022	<u>23,788,204</u>	<u>772,750</u>	<u>321,351</u>	<u>24,882,305</u>
Arising from:				
Loans and advances	23,707,748	770,930	305,536	24,784,214
Trade bills, accrued interest and other receivables	80,456	1,820	15,815	98,091
	<u>23,788,204</u>	<u>772,750</u>	<u>321,351</u>	<u>24,882,305</u>

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK\$170,435,000.

	2021			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
Gross loans and advances and receivables as at 1 January 2021	25,759,389	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	<u>25,752,582</u>	<u>250,898</u>	<u>247,999</u>	<u>26,251,479</u>
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
	<u>25,752,582</u>	<u>250,898</u>	<u>247,999</u>	<u>26,251,479</u>

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.

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

	2022			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
Internal rating grades:				
Performing				
Pass	23,674,964	–	–	23,674,964
Special Mention	113,240	772,750	–	885,990
Non-performing				
Substandard	–	–	111,070	111,070
Doubtful	–	–	190,588	190,588
Loss	–	–	19,693	19,693
Total	<u>23,788,204</u>	<u>772,750</u>	<u>321,351</u>	<u>24,882,305</u>

	2021			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 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

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

	2022			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
As at 1 January 2022*	96,568	21,924	65,752	184,244
New loans/financing originated	58,300	–	484	58,784
Loans/financing derecognised or repaid during the year (other than write-offs)	(58,978)	(4,151)	(101,859)	(164,988)
Transfer to 12-month expected credit loss (Stage 1)	1,811	(607)	(1,204)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(2,273)	2,353	(80)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(7,816)	(16,550)	24,366	–
Total transfer between stages	(8,278)	(14,804)	23,082	–
Impact on year end expected credit loss of exposures transferred between stages during the year	(690)	29,372	196,178	224,860
Movements due to changes in credit risk	(1,254)	(109)	13,344	11,981
Recoveries	–	–	98,357	98,357
Write-offs	–	–	(210,515)	(210,515)
As at 31 December 2022	85,668	32,232	84,823	202,723
Arising from:				
Loans and advances	84,432	32,182	81,873	198,487
Trade bills, accrued interest and other receivables	1,236	50	2,950	4,236
	85,668	32,232	84,823	202,723

* 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.

	2021			
	Stage 1 <i>HK\$'000</i>	Stage 2 <i>HK\$'000</i>	Stage 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	<u>96,600</u>	<u>21,924</u>	<u>65,752</u>	<u>184,276</u>
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
	<u>96,600</u>	<u>21,924</u>	<u>65,752</u>	<u>184,276</u>

(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:

	2022 Undiscounted lease payments <i>HK\$'000</i>	2021 <i>HK\$'000</i>	2022 Net investment in finance leases <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Amounts receivable under finance leases:				
Within one year	454,967	406,350	281,222	266,342
Over one year but within two years	391,406	348,885	241,862	229,645
Over two years but within three years	337,546	298,033	197,822	186,761
Over three years but within four years	295,348	256,102	162,784	150,386
Over four years but within five years	261,430	229,673	134,254	127,888
Over five years	5,544,205	5,232,762	4,043,027	4,014,407
	<u>7,284,902</u>	6,771,805	<u>5,060,971</u>	<u>4,975,429</u>
Less: Unearned finance income	<u>(2,223,931)</u>	<u>(1,796,376)</u>		
Net investment in finance leases	<u>5,060,971</u>	<u>4,975,429</u>		

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

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Certificates of deposit held	3,232,848	3,384,230
Treasury bills and government bonds (including Exchange Fund Bills)	2,867,666	2,071,457
Other debt securities	1,337,727	1,024,028
Gross held-to-collect debt securities at amortised cost	7,438,241	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 year	(97)	25
	(746)	(649)
	7,437,495	6,479,066
Listed or unlisted:		
– Listed in Hong Kong	1,314,152	1,024,776
– Listed outside Hong Kong	149,790	107,590
– Unlisted	5,974,299	5,347,349
	7,438,241	6,479,715
Analysed by type of issuers:		
– Central governments	2,867,666	2,071,457
– Public sector entities	429,785	500,000
– Corporates	200,000	31,484
– Banks and other financial institutions	3,940,790	3,876,774
	7,438,241	6,479,715

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

There were neither impaired nor overdue held-to-collect debt securities at amortised cost as at 31 December 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 Investors Service, an external credit agency.

18. GOODWILL

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Cost and net carrying amount:		
At the beginning and the end of the year	<u>2,774,403</u>	<u>2,774,403</u>

Impairment test of goodwill

There are two CGUs, namely Public Bank (Hong Kong) and Public Finance, which represent the main operating entities within the business segment “retail and commercial banking businesses” identified by the Group. Goodwill acquired through business combinations is allocated on a pro-rata basis to the two CGUs based on the ratio of the recoverable amount of a CGU to that of the other CGU at the date of acquisition. The carrying amount of goodwill as at 31 December 2022 and 31 December 2021 was HK\$2,774,403,000, of which HK\$832,321,000 was attributed to Public Bank (Hong Kong) and HK\$1,942,082,000 was attributed to Public Finance. The recoverable amounts of the CGUs at each subsequent reporting date are determined based on the value-in-use using the present value of cash flows taking into account the expected operating synergy, profitability and growth of businesses arising from the acquisition of Public Bank (Hong Kong) and its subsidiaries. The cash flow projections are based on financial plans approved by management and assumed growth rates are used to extrapolate the cash flows beyond 5 years. The financial projection considers the sustainability of business growth, stability of core business developments, long-term economic cycle, availability of financial resources for business expansion and compliance with regulatory capital and liquidity requirements, and achievement of business targets extrapolated from a track record of financial results. Management’s financial model assumes an average growth rate of 2.8% (2021: 3.0%) per annum for both CGUs from the sixth years taking into account long-term gross domestic product growth and other relevant economic factors. A discount rate of 8.1% (2021: 6.9%) is used for both CGUs based on the pre-tax weighted average cost of capital plus an appropriate risk premium relating to the CGUs at the date of assessment.

No impairment loss has been recognised in respect of goodwill for the years ended 31 December 2022 and 31 December 2021 as its value-in-use exceeded its carrying amount.

19. LEASES

(a) As lessor

The Group leases its investment properties under operating lease arrangements, and the terms of the leases range from 1 to 4 years.

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within one year	11,041	10,054
Over one year but within two years	6,974	4,929
Over two years but within three years	576	1,918
Over three years but within four years	–	228
	<u>18,591</u>	<u>17,129</u>

(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 31 December 2022 and 31 December 2021, the Group had total future lease payments for leases committed but not yet commenced falling due as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within one year	1,795	4,331
In the second to fifth years, inclusive	4,493	8,074
	<u>6,288</u>	<u>12,405</u>

20. OFF-BALANCE SHEET EXPOSURE

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 year:

	Contractual amount <i>HK\$'000</i>	Credit equivalent amount <i>HK\$'000</i>	2022 Credit risk- weighted amount <i>HK\$'000</i>	Positive fair value- assets <i>HK\$'000</i>	Negative fair value- liabilities <i>HK\$'000</i>
Direct credit substitutes	27,340	27,340	23,372	-	-
Transaction-related contingencies	13,533	6,767	2,011	-	-
Trade-related contingencies	7,698	1,540	1,380	-	-
Forward forward deposits placed	-	-	-	-	-
Forward asset purchases	-	-	-	-	-
	48,571	35,647	26,763	-	-
Derivatives held for trading:					
Foreign exchange rate contracts	594,620	7,105	1,421	343	2,002
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	155,840	77,920	77,920	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,306,996	-	-	-	-
	3,106,027	120,672	106,104	343	2,002
					2022 Contractual amount <i>HK\$'000</i>
Capital commitments contracted for, but not provided in the consolidated statement of financial position					18,530

	Contractual amount <i>HK\$'000</i>	Credit equivalent amount <i>HK\$'000</i>	2021 Credit risk- weighted amount <i>HK\$'000</i>	Positive fair value- assets <i>HK\$'000</i>	Negative fair value- liabilities <i>HK\$'000</i>
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	–	–	–	–	–
	<u>311,488</u>	<u>300,206</u>	<u>75,979</u>	–	–
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	<u>2,256,137</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u><u>3,579,872</u></u>	<u><u>354,419</u></u>	<u><u>117,990</u></u>	<u><u>1,551</u></u>	<u><u>6,748</u></u>
					2021 Contractual amount <i>HK\$'000</i>
Capital commitments contracted for, but not provided in the consolidated statement of financial position					<u><u>8,347</u></u>

As at 31 December 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\$21,000 and HK\$32,000 respectively.

21. 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.

	2022							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Financial assets:								
Gross cash and short term placements	935,939	2,470,656	-	-	-	-	-	3,406,595
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	1,686,951	139,808	-	-	-	1,826,759
Gross loans and advances and receivables	575,314	1,979,025	1,170,195	2,053,263	5,971,251	12,780,828	352,429	24,882,305
Equity investments at fair value through other comprehensive income	-	-	-	-	-	-	6,804	6,804
Gross held-to-collect debt securities at amortised cost	-	720,455	1,691,476	3,762,752	1,263,558	-	-	7,438,241
Other assets	56	157,351	11,240	4,617	3,649	-	86,879	263,792
Gross foreign exchange contracts	-	594,620	-	-	-	-	-	594,620
Total financial assets	1,511,309	5,922,107	4,559,862	5,960,440	7,238,458	12,780,828	446,112	38,419,116
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	108,025	249,132	50,000	90,000	-	-	-	497,157
Customer deposits at amortised cost	9,671,382	6,214,728	9,592,685	4,943,996	23,621	-	-	30,446,412
Unsecured bank loans at amortised cost	-	1,552,087	-	-	-	-	-	1,552,087
Lease liabilities	-	4,474	9,171	35,971	52,910	8,219	-	110,745
Other liabilities	4,652	199,401	51,256	34,580	47	-	152,338	442,274
Gross foreign exchange contracts	-	596,279	-	-	-	-	-	596,279
Total financial liabilities	9,784,059	8,816,101	9,703,112	5,104,547	76,578	8,219	152,338	33,644,954
Net liquidity gap	(8,272,750)	(2,893,994)	(5,143,250)	855,893	7,161,880	12,772,609	293,774	4,774,162

	2021							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Financial assets:								
Gross cash and short term placements	1,042,204	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

22. COMPARATIVE FIGURES

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

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 year covered by the 2022 Annual 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 who deceased on 12 December 2022, the then 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 the Nomination and Remuneration Committee, 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 in Malaysia due to the fifth wave of COVID-19 pandemic in Hong Kong to answer questions raised therein, if any.

DIVIDENDS

The first interim dividend of HK\$0.05 (2021: HK\$0.05) per ordinary share was paid on Wednesday, 3 August 2022. The second interim dividend of HK\$0.11 (2021: HK\$0.15) per ordinary share was declared on Wednesday, 28 December 2022 and will be payable on Friday, 24 February 2023 to shareholders of the Company whose names appear on the register of members on Tuesday, 31 January 2023. The Directors do not recommend the payment of a final dividend for the year (2021: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 20 March 2023 to Friday, 24 March 2023, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming AGM, all properly completed transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Friday, 17 March 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the year under review, the economy of Hong Kong was adversely affected by the fifth wave of COVID-19 pandemic in Hong Kong though there were signs of gradual economic recovery since the second quarter of 2022 with improved employment situation. In response to the high inflation, the US Federal Reserve accelerated its balance sheet reduction programme and raised its benchmark interest rates seven times in 2022 which had adverse impact on funding costs for the corporate sector. Due to the much higher interest rate environment and heightened geopolitical factors such as the Russia-Ukraine conflicts, there was a downward adjustment on the property price coupled with underperformance in the stock market in 2022 with dampened investment sentiment.

Under the aforesaid challenging operating environment in the year under review, the Group conducted its loan business cautiously with strategic focus on secured lending segments at reasonable interest yields to contain credit risk whilst managing the pace of its funding cost escalation to minimise the adverse impact on its net interest margin. The Group continued to diversify revenue sources into fee-based businesses amidst weaker consumer sentiment and subdued corporate loan demands and will continue to pursue long-term business growth prudently with sustainable profit growth.

FINANCIAL REVIEW

Revenue and earnings

For the year ended 31 December 2022, the Group recorded a profit after tax of HK\$328.7 million, representing a decrease of HK\$167.8 million or 33.8% compared with the previous year.

The Group's basic earnings per share for 2022 was HK\$0.30. The Board declared a first interim dividend of HK\$0.05 per share in June 2022 and a second interim dividend of HK\$0.11 per share in December 2022. The Board did not recommend the payment of a final dividend, making a total dividend declared for the year of HK\$0.16 per share (2021: HK\$0.20 per share).

For the year under review, the Group's interest income increased by HK\$51.1 million or 3.5% to HK\$1.50 billion contributed mainly from the growth in interest income from bank placements and investments in debt securities under the higher interest rate environment; whilst total interest expense increased by HK\$182.1 million or 108.5% to HK\$349.9 million mainly due to funding cost escalation on customer deposits. As a result, the Group's net interest income decreased by HK\$131.0 million or 10.2% to HK\$1.15 billion. Other operating income of the Group decreased by HK\$10.2 million or 4.4% to HK\$223.0 million mainly due to the decrease in fees and commission income from stockbroking business and lesser gains from foreign exchange activities in the year under review.

Total operating expenses (before changes in fair value of investment properties) decreased marginally by HK\$7.5 million or 0.9% to HK\$823.6 million, mainly due to decrease in staff-related costs.

The fair value of investment properties decreased by HK\$13.2 million during the year under review compared with a revaluation gain of HK\$9.0 million in the previous year.

Credit loss expenses increased by HK\$39.8 million or 43.8% to HK\$130.6 million in 2022 compared with 2021 mainly due to increase in credit charge for unsecured consumer financing loans and hire purchase financing affected by the fifth wave of COVID-19 pandemic in Hong Kong which caused, among others, depreciation in transport licence value during the year under review.

Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) decreased by HK\$1.38 billion or 5.3% to HK\$24.79 billion as at 31 December 2022 from HK\$26.17 billion as at 31 December 2021. Customer deposits decreased by HK\$1.73 billion or 5.4% to HK\$30.45 billion as at 31 December 2022 from HK\$32.18 billion as at 31 December 2021.

As at 31 December 2022, the Group's total assets stood at HK\$41.92 billion.

Key financial and business performance indicators

The Group's return on equity, based on profit after tax to average equity, stood at 3.8% in the year under review. Due to the heightened funding cost, the Group's net interest margin was under downward pressure, but the Group implemented effective cost control and credit risk management to achieve a reasonable return in the highly challenging year of 2022. The Group will continue to diversify income streams whilst seeking satisfactory yields on loans and other interest-bearing assets and acquiring customer deposits at reasonable costs to maintain the sustainability of net interest margin and profitability from time to time.

The Group's cost to income ratio was maintained at a satisfactory level of 59.9% despite the increase in information system costs and compliance costs to fulfil or address increasing regulatory requirements. The Group aims to contain operating expenses but will continue to allocate adequate resources to implement digital transformation and strengthen security controls against potential cyber threats.

The Group's impaired loans to total loans ratio stood at a satisfactory level of 1.23% as at 31 December 2022, reflecting that the loan asset quality at group level was well-managed amidst economic downturn. The Group continues to adopt prudent underwriting standards to ensure healthy level of impaired loans and to take prompt actions to pursue loans recovery for problem credits.

Business performance of key subsidiaries

Public Bank (Hong Kong)

During the year under review, total loans and advances (including trade bills) of Public Bank (Hong Kong), a licensed bank and a direct subsidiary of the Company, recorded a decrease of HK\$1.22 billion or 5.9% to HK\$19.32 billion as at 31 December 2022 from HK\$20.54 billion as at 31 December 2021. Customer deposits (excluding deposits from a subsidiary) decreased by HK\$1.32 billion or 4.8% to HK\$26.42 billion as at 31 December 2022 from HK\$27.74 billion as at 31 December 2021. Impaired loans to total loans ratio of Public Bank (Hong Kong) increased by 0.30% to 1.14% as at 31 December 2022 from 0.84% as at 31 December 2021.

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 services 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), recorded a decrease of HK\$134.2 million or 2.6% to HK\$5.09 billion as at 31 December 2022 from HK\$5.22 billion as at 31 December 2021. Customer deposits decreased by HK\$394.5 million or 8.4% to HK\$4.29 billion as at 31 December 2022 from HK\$4.69 billion as at 31 December 2021. Impaired loans to total loans ratio of Public Finance increased by 0.26% to 1.44% as at 31 December 2022 from 1.18% as at 31 December 2021.

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 year under review, 94.7% of the Group's operating income and 98.9% of the profit before tax were contributed by retail and commercial banking businesses. Compared with the previous year, the Group's operating income from retail and commercial banking businesses decreased by HK\$133.4 million or 9.3% to HK\$1.30 billion mainly due to the decrease in net interest income of the Group as affected by the funding cost escalation. Profit before tax from this segment decreased by HK\$161.8 million or 28.7% to HK\$402.1 million mainly due to the aforesaid decrease in net interest income as well as the increase in credit loss expenses of unsecured consumer financing loans and hire purchase financing. The Group's operating income from wealth management services, stockbroking and securities management decreased by HK\$9.2 million or 14.0% to HK\$56.4 million. Profit before tax from this segment decreased by HK\$12.7 million or 44.5% to HK\$15.8 million during the year under review.

Group's branch network

As at 31 December 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 branch network of 42 branches in Hong Kong to focus on its core business in personal lending. Winton Financial Limited ("Winton Financial"), another operating subsidiary of the Company which operates under a money lenders licence, had a branch network of 3 branches in Hong Kong to provide personal financing to its targeted customer segment. In total, the Group had a combined branch network of 82 branches as at 31 December 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 the provision of retail and commercial banking businesses. The investment cost in the subsidiary amounted to HK\$6.59 billion or 71.9% 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\$331.2 million on consolidated basis, which represented a return of 5.0% from the Company's investment. Dividend income received from Public Bank (Hong Kong) was HK\$230.6 million during the year under review. Further details of such investment (including the number and percentage of shares held) in Public Bank (Hong Kong) will be disclosed in the 2022 Annual Report.

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 financial statements) as at the end of the year under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the year 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 31 December 2022, there was no charge over the assets of the Group. There was also no important event affecting the Group which had occurred since 31 December 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 year 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 Hong Kong dollars ("HKD") or United States dollars. 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 the end of 2022. Based on the level of bank borrowings compared to the equity of the Group, the Group's gearing ratio remained at a healthy level of 0.18 times as at 31 December 2022, which was relatively the same compared with the position of 31 December 2021. The bank borrowings as at 31 December 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 also no foreign currency investments hedged by foreign currency borrowings and other hedging instruments during the year under review.

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 24.3% and 25.0% respectively as at 31 December 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 increased by 0.33% to 1.23% as at 31 December 2022 from 0.90% as at 31 December 2021. 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.

The direct exposures to Europe and Russia were assessed as insignificant and manageable 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 31 December 2022, the Group's staff force stood at 1,207 employees. For the year ended 31 December 2022, the Group's total staff related costs amounted to HK\$511.9 million.

PROSPECTS

Given the recent almost fully relaxed anti-pandemic measures announced by the Hong Kong Government in late December 2022 and gradual resumption of more business activities, the economies of Hong Kong and Mainland China are anticipated to continue on a gradual recovery path in 2023, but the prospects remain uncertain, depending on the development of pandemic and geopolitical risk factors. The risk appetites for corporate investments/business expansion and individuals' private consumption are expected to remain conservative in the near term in view of the recent resurgence of COVID-19 infected cases in both Hong Kong and Mainland China. Accordingly, loan growth momentum in Hong Kong and Mainland China will continue to be constrained, but the situation should improve when the Hong Kong and Mainland China borders are re-opened to the rest of the world.

As inflation remains high, the US Federal Reserve is anticipated to further adjust its benchmark interest rates upward in 2023, which will adversely affect the funding cost of the Group and loan demand of corporate borrowers. The lending rates on the loan book may continue to be constrained by the relatively slow adjustment on HKD prime rate. Competition in the banking and financing industry in Hong Kong is also expected to intensify with the operations 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 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 the utilisation of system resources to enhance service quality and efficiency of banking operations. The Group will also strive for the diversification of income streams by development of 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 developments, deposit-takings 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 also allocate more resources to drive the digitalisation process of its financial services and business growth from electronic channels for long term productivity and cost efficiency.

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 2023. The Group is also committed to fostering a healthy and strong corporate culture to enhance the Group's cohesiveness with shared vision and values by every staff in the Group.

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 year.

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 annual results for the year ended 31 December 2022 as set out in this announcement have been reviewed by the Audit Committee.

PUBLICATION OF 2022 ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement of the Group for the year ended 31 December 2022 is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.publicfinancial.com.hk. The 2022 Annual Report containing all applicable information required by the Listing Rules will be despatched to the shareholders of the Company and published on the above websites in or around late-February 2023.

APPRECIATION

On behalf of the Board, I would like to pay a special tribute and express our deep appreciation to the late Tan Sri Dato' Sri Dr. Teh Hong Piow, who was the Non-Executive Chairman of the Group until his demise on 12 December 2022, for his outstanding and visionary leadership and immeasurable contributions to the Group.

I wish to take this opportunity to express our gratitude to the management and staff of the Group for their commitment and contribution during the year. I would also like to express our appreciation to the guidance from the regulators and continued support from our shareholders and customers.

By Order of the Board
Public Financial Holdings Limited
Lai Wan
Chairman

Hong Kong, 18 January 2023

As at the date of this announcement, the Board of the Company comprises Mr. Lai Wan, Dato' Chang Kat Kiam, Mr. Quah Poh Keat and Mr. Chong Yam Kiang as Non-Executive Directors, Mr. Tan Yoke Kong as Executive Director, and Mr. Lee Chin Guan, Mr. Lim Chao Li and Ms. Cheah Kim Ling as Independent Non-Executive Directors.