



2020 INTERIM REPORT

創興銀行有限公司
Chong Hing Bank Limited

Stock Code : 1111

CONTENTS

3	Corporate Information
5	Chairman's Statement
7	Chief Executive's Statement
18	Directors' (including the Chief Executive's) Interests and Short Positions in Shares, Underlying Shares and Debentures
20	Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares
21	Corporate Governance
22	Disclosure of Changes in Directors' Information
23	Other Information
25	Report on Review of Interim Financial Information
26	Condensed Consolidated Income Statement
27	Condensed Consolidated Statement of Comprehensive Income
28	Condensed Consolidated Statement of Financial Position
29	Condensed Consolidated Statement of Changes in Equity
30	Condensed Consolidated Statement of Cash Flows
32	Notes to the Condensed Consolidated Interim Financial Information
32	General information
32	Basis of preparation and accounting policies
34	Segment information
41	Fair value measurement of financial instruments
44	Offsetting financial assets and financial liabilities
45	Net interest income
46	Net fee and commission income
47	Net income from trading and investments
48	Other operating income
49	Operating expenses
50	Net impairment losses on financial assets
50	Taxation
51	Earnings per share – basic and diluted
51	Dividends

51	Cash and short-term funds
52	Derivative financial instruments
53	Investments in securities
53	Transfer of financial assets
54	Advances and other accounts
55	Investment properties
56	Property and equipment
57	Intangible assets
57	Financial assets sold under repurchase agreements
57	Deposits from customers
58	Other accounts and accruals
58	Certificates of deposit
58	Loan capital
60	Deferred taxation
61	Additional equity instruments
62	Maturity profiles
64	Related party transactions
65	Estimates
67	Non-adjusting events after the reporting period
67	Comparative amounts
68	Supplementary Information
68	Advances to customers – by industry sectors
71	Advances to customers – by geographical areas
72	International claims
73	Overdue and rescheduled assets
74	Mainland activities exposures
76	Currency risk
77	Contingent liabilities and commitments
78	Capital adequacy ratios, leverage ratio and liquidity ratio
79	Other financial information
80	Basis of consolidation
81	Risk management

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr ZONG Jianxin (*Deputy Chairman and Chief Executive*)
Mr LAU Wai Man (*Deputy Chief Executive*)

NON-EXECUTIVE DIRECTORS

Mr ZHANG Zhaoxing (*Chairman*)
Mr LI Feng
Mr CHOW Cheuk Yu Alfred BBS, JP
Ms CHEN Jing

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr CHENG Yuk Wo
Mr MA Chiu Cheung Andrew
Mr LEE Ka Lun
Mr YU Lup Fat Joseph

BOARD COMMITTEES

AUDIT COMMITTEE

Mr CHENG Yuk Wo (*Chairman*)
Mr CHOW Cheuk Yu Alfred BBS, JP
Ms CHEN Jing
Mr LEE Ka Lun
Mr YU Lup Fat Joseph

CONNECTED PARTY TRANSACTIONS COMMITTEE

Mr MA Chiu Cheung Andrew (*Chairman*)
Mr CHOW Cheuk Yu Alfred BBS, JP
Mr CHENG Yuk Wo
Mr CHAN Kam Ki Vincent
Mr WOO Pak Kin Clement

INFORMATION TECHNOLOGY STRATEGY COMMITTEE

Mr LEE Ka Lun (*Chairman*)
Mr LI Feng
Mr ZONG Jianxin
Mr LAU Wai Man
Mr WONG Kwok Leung Arthur

NOMINATION COMMITTEE

Mr YU Lup Fat Joseph (*Chairman*)
Mr ZHANG Zhaoxing
Mr CHENG Yuk Wo
Mr MA Chiu Cheung Andrew

REMUNERATION COMMITTEE

Mr YU Lup Fat Joseph (*Chairman*)
Mr ZHANG Zhaoxing
Mr CHOW Cheuk Yu Alfred BBS, JP
Mr MA Chiu Cheung Andrew
Mr LEE Ka Lun

RISK COMMITTEE

Mr LEE Ka Lun (*Chairman*)
Mr LI Feng
Mr CHENG Yuk Wo
Mr YU Lup Fat Joseph

SENIOR MANAGEMENT

Mr TANG Xianqing (*Deputy Chief Executive*)
Mr CHIU Tak Wah Edward (*Chief Operating Officer and Alternate Chief Executive*)
Mr CHAN Kam Ki Vincent (*Chief Financial Officer*)
Mr WOO Pak Kin Clement (*Chief Risk Officer*)
Ms CHAN Yun Ling (*Head of Financial Markets Division*)
Mr SIN Tat Wo (*Head of Mainland Corporates Division and Acting Head of Hong Kong Corporates Division*)
Ms LAM Pik Ha Eliza (*Head of Financial Institutions Division*)
Mr YIP Kui Yin Frederick (*Chief Credit Officer*)
Mr WONG Kwok Leung Arthur (*Chief Information Officer*)
Ms CHAN Oi Hung Blanche (*Head of Human Resources Division*)
Ms LAI Wing Nga (*Company Secretary*)

CORPORATE INFORMATION

as of 28 August 2020

REGISTERED OFFICE

Address : Ground Floor, Chong Hing Bank Centre
24 Des Voeux Road Central, Hong Kong
Telephone : (852) 3768 1111
Facsimile : (852) 3768 1888
SWIFT BIC : LCHB HK HH
Website : www.chbank.com
E-mail : info@chbank.com



Chong Hing Bank's website access code

PRINCIPAL LEGAL ADVISERS

Deacons
Kwan & Chow
Mayer Brown JSM
Robertsons

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

STOCK CODES AND SHORT NAMES

The Stock Exchange of Hong Kong Limited's Stock Codes and Short Names in respect of the Bank's (1) shares, (2) subordinated notes due 2020, (3) tier 2 subordinated notes due 2027, (4) US\$400,000,000 5.70 per cent. undated non-cumulative subordinated additional tier 1 capital securities and (5) US\$300,000,000 5.50 per cent. undated non-cumulative subordinated additional tier 1 capital securities are (1) 01111 (CHONG HING BANK), (2) 04327 (CH BANK N2011), (3) 05249 (CH BANK N2707), (4) 04419 (CH BANK NCSCS) and (5) 40329 (CH BANK NCSCSB) respectively.

In the first half of 2020, the COVID-19 pandemic plunged the global economy into recession. Facing a tough operating environment, Chong Hing Bank Limited (the "Bank" or "Chong Hing Bank") adhered to its principle of prudent operations and strengthened risk prevention and control in all aspects, aiming to maintain a steady business development. The Bank also accelerated its digital transformation and made every effort to provide quality financial services to its customers.

In the "Top 1000 World Banks" list released by the British magazine "The Banker" in 2020, Chong Hing Bank's ranking rose to 381st, up nearly 100 places in five years, showing a further improvement in its all-round strength.

In the first half of 2020, the world's major economies adopted monetary easing policies to cushion the impact of the pandemic, and the falling HKD and USD interest rates narrowed net interest margins. According to the accounting principles of Hong Kong Financial Reporting Standard 9 Financial Instruments (HKFRS 9), the Bank also increased forward-looking impairment allowances for financial asset due to increasing uncertainties in market credit risks. Operating profit before impairment allowances amounted to HK\$1,167 million, an increase of 0.09% compared to the same period last year. Profits attributable to equity owners amounted to HK\$715 million, a decrease of 20.96% compared to the same period last year. Earnings per share were HK\$0.64. Facing the highly uncertain economic outlook and extremely challenging operating environment, and our regulator has advised that banks should reserve sufficient capital to meet future challenges, the board of directors of the Bank (the "Board") has recommended the payment of an interim cash dividend of HK\$0.11 per share for the six months ended 30 June 2020. The dividend payout for the period as a percentage of the profit attributable to equity owners, less distribution paid on the additional equity instruments, will be 17.47% (2019: 20.01%).

The major financial ratios for the first half of 2020 are as follows:

Return on shareholders' equity: 5.85%

Average liquidity maintenance ratio: 45.19%

Total capital ratio as of 30 June 2020: 16.40%

Tier 1 capital ratio as of 30 June 2020: 13.61%

Loan to deposit ratio as of 30 June 2020: 72.38%

Since the first quarter of this year, the global economy suffered a serious blow due to the ongoing impact of COVID-19 in various parts of the world. Due to the increased tensions between China and the US, further monetary easing and continued geopolitical risks, global economic prospects remained bleak. Mainland China's Gross Domestic Product (GDP) in the second quarter increased by 3.2% year-on-year, indicating that China has solid economic fundamentals as well as resilience and great potential amidst the impact of the pandemic. China's increased support for the "Six Stabilities" and "Six Guarantees" measures will help maintain a stable economy. As for Hong Kong, in view of the complex external situation, local social events and the COVID-19 outbreak, its growth momentum was weak, with all sectors facing severe challenges in the first half of the year. In response to the dire situation, Chong Hing Bank has launched a number of relief measures to help customers affected by the pandemic to weather the storm.

The development of the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area") is important to Hong Kong's development. The implementation of various measures of the "Opinion on Providing Financial Support for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area" will not only promote the inter-connection of the financial markets in the Greater Bay Area but also create enormous opportunities for Hong Kong's financial sector as well as other industries. With the support of its controlling shareholder Yuexiu Group and strategic shareholder Guangzhou Metro, Chong Hing Bank will seize opportunities arising from the opening up of China's financial sector, strengthen business synergies between onshore and offshore institutions, actively expand diversified cross-border financial services, and leverage business advantages in the Greater Bay Area and Yangtze River Delta region. Such efforts are essential for Chong Hing Bank to realise its vision of becoming an integrated commercial bank with cross-border expertise.

In line with the Fintech trend, Chong Hing Bank has been dedicating much effort to technological innovation in order to meet the needs and expectations of the public for quality financial services. The Bank has recruited technology experts from Hong Kong and the Mainland to build its "Finance + Technology" infrastructure and accelerate its digital transformation. It has also enhanced the seamless integration of online and offline service channels so that they can fully merge with its traditional banking businesses. The investment in digital transformation will serve to drive the business growth of the Bank going forward.

Looking ahead to the second half of the year, Hong Kong's banking sector is expected to continue to be under pressure as the international political and economic situation remains complex and volatile, and recovery of the global economy is not yet in sight. But crises often bring about great opportunities. In order to steadily improve its core business capabilities, Chong Hing Bank will make every effort to cope with the changes, maintain its operations in a prudent manner, actively prevent and manage risks associated with the pandemic as well as other risks, and accelerate structural optimisation and digital transformation. In addition, it will speed up its development in the Mainland by further expanding its Mainland network and actively preparing for the establishment of a Mainland-incorporated bank, with an eye to adding new impetus to the Bank's future development.

In the first half of 2020, Chong Hing Bank has encountered many challenges in its business development. We would like to thank all our directors and shareholders for their excellent leadership, customers and business partners for their trust and support, and in particular the management team and all staff for their professionalism, commitment and solidarity since the outbreak of COVID-19. All these factors are essential for Chong Hing Bank's steady growth. We are determined and confident in our ability to seize opportunities amidst difficulties and are committed to continuously pursuing business development of high quality.

Zhang Zhaoxing

Chairman

Hong Kong, 28 August 2020

ECONOMIC ENVIRONMENT

The global economy has been shaken seriously since the COVID-19 pandemic started in early 2020. The US economy shrank sharply, with its Gross Domestic Product (GDP) in the second quarter falling by 32.9% year-on-year. The US Federal Reserve twice announced interest rate cuts and launched large-scale quantitative easing measures in March to stabilise the economy and finances. Apart from the pandemic, tensions between China and the US escalated and continued to bring further uncertainties to the global economy. The GDP of the Eurozone in the second quarter contracted by 15% year-on-year. The European Central Bank launched the "Pandemic Emergency Purchase Programme" in March and maintained a low interest rate policy. However, the recurrent outbreaks of the pandemic and the failure to see a breakthrough in negotiations for a trade agreement between the UK and EU added variables to the prospects of the Eurozone.

The complicated and capricious domestic and foreign environment plus the pandemic brought severe challenges to the Mainland economy. As the pandemic began to be effectively stymied in March, enterprises promoted the resumption of work and production, and primary economic indicators have shown signs of growth in a recovery. In addition, China has implemented a series of supportive measures as the main objective of the "Six Guarantees", and GDP in the first half of the year contracted by 1.6% year-on-year. The RMB exchange rate performance was affected by the Sino-US trade situation. The trend showed two-way fluctuations but remained stable overall. The central parity of the RMB against the US dollar fell by 1.5% in the first half of the year. The Mainland cities where Chong Hing Bank operates demonstrated strong resilience amidst the impact of the pandemic. In Guangzhou, the information services and financial industries thrived during the recession, playing an important role in supporting the economy. Guangzhou's GDP fell by 2.7% year-on-year in the first half of the year. In Shenzhen, the economy has shown clear signs of recovery, and the decline of value added of industrial enterprises above a designated size has narrowed. Investments and import and export trading have gradually rebounded. Shenzhen's GDP increased by 0.1% year-on-year in the first half of the year. In Shanghai, a steady recovery in tertiary industries supported economic growth, accelerating an all-round economic recovery. Shanghai's GDP fell by 2.6% year-on-year in the first half of the year.

The pandemic has severely disrupted exports, consumption and investments in Hong Kong. Hong Kong's GDP shrank by approximately 9% year-on-year in the first half of the year. In terms of foreign trade, with the general recovery in production activities in the Mainland, overall goods exports fell by 2.4% year-on-year in the second quarter; the suspension of inbound tourism significantly added to the decline in service exports, which fell by 46.1% year-on-year in the second quarter. In terms of internal demand, the reduction in the numbers of people going outside coupled with the pessimistic business atmosphere caused a gross sharp drop in private consumption expenditures and overall investment spending, which fell by 14.2% and 21.4% respectively in the second quarter. The labour market deteriorated sharply, and unemployment hit a 15-year high at 6.2% in the second quarter. As for the property market, the private residential price index remained stable in the first half of the year, but the number of transactions in the residential market was the lowest seen across the past four years. The Hong Kong stock market fluctuated in the first half of the year. The Hang Seng Index plummeted to a half-year low of 21,139 points in March but rebounded in the second quarter. On the last trading day of the first half of the year, the Hang Seng Index closed at 24,427 points with a half-year cumulative loss of 13.3%

SUCCESSFUL ISSUANCE OF US\$300 MILLION 5.5 PER CENT. ADDITIONAL TIER 1 CAPITAL SECURITIES

Chong Hing Bank Limited (the "Bank" or "Chong Hing Bank") successfully issued US\$300 million 5.5% Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the "Securities") in July 2020 under the US\$2 billion Medium Term Note and Perpetual Capital Securities Programme of the Bank. The Securities are qualified as Basel III-compliant additional tier 1 capital. The proceeds will serve to strengthen the Bank's capital base and promote the implementation of its strategic plans.

Against the backdrop of economic turmoil, the interest rate of the said issuance is even lower, by 20 basis points, than the interest rate of 5.7% of the Bank's previous issuance in 2019, showing the high recognition accorded to the Yuexiu Group and Chong Hing Bank by international bond investors.

RESULTS ANNOUNCEMENT AND PROFIT ANALYSIS

The results of the Bank for the six months ended 30 June 2020, calculated on an unaudited and consolidated basis, are summarised below:

KEY FINANCIAL DATA

Six months ended 30 June			
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	Variance
1. Operating profit before impairment allowances	1,167,005	1,165,903	+0.09 %
2. Profit attributable to equity owners	714,965	904,595	-20.96 %
3. Net interest income	1,462,659	1,544,675	-5.31 %
4. Net fee and commission income	209,606	167,173	+25.38 %
5. Net income from trading and investments	197,380	122,211	+61.51 %
6. Other operating income	80,182	82,458	-2.76 %
7. Operating expenses	782,822	750,614	+4.29 %
8. Net impairment losses on financial assets	298,375	96,580	+208.94 %

	As of 30 June 2020 HK\$'000 (Unaudited)	As of 31 December 2019 HK\$'000	Variance
9. Loans and advances to customers	129,002,901	118,078,914	+9.25 %
10. Deposits from customers	168,913,133	162,664,648	+3.84 %
11. Investment in securities	57,999,757	57,534,593	+0.81 %
12. Total assets	218,058,085	212,768,034	+2.49 %

Six months ended 30 June			
	2020 (Unaudited)	2019 (Unaudited)	Variance (Note (3))
13. Return on shareholders' equity (Note (1))	5.85% (annualised)	7.96% (annualised)	-2.11 p.p
14. Earnings per share (Note (2))	HK\$0.64	HK\$0.85	-24.71%
15. Net interest margin	1.41%	1.59%	-0.18 p.p
16. Cost to income ratio	40.15%	39.17%	+0.98 p.p
17. Average liquidity maintenance ratio	45.19%	46.00%	-0.81 p.p

	As of 30 June 2020 (Unaudited)	As of 31 December 2019	Variance
18. Non-performing loan ratio	0.41%	0.33%	+0.08 p.p
19. Loan to deposit ratio	72.38%	69.46%	+2.92 p.p
20. Net assets value per share (excluding additional equity instruments and before the interim/final dividend)	HK\$21.68	HK\$22.37	-3.08%
21. Total capital ratio	16.40%	17.51%	-1.11 p.p
22. Tier 1 capital ratio	13.61%	14.32%	-0.71 p.p
23. Common Equity Tier 1 capital ratio	11.66%	12.28%	-0.62 p.p

Notes:

- (1) Return on shareholders' equity took into consideration the distribution paid on the additional equity instruments relevant for the period.
(2) Earnings per share were calculated after deducting the distribution paid on the additional equity instruments relevant for the period.
(3) p.p means percentage point.

ANALYSIS OF KEY FINANCIAL DATA

In the first half of 2020, on an unaudited and consolidated basis, the profit attributable to equity owners of the Bank amounted to HK\$715 million, representing a decrease of 20.96% from the same period in 2019, while the operating profit before impairment allowances amounted to HK\$1,167 million, which was in line with the same period in 2019. The decrease in consolidated profit for the period was mainly attributable to a decreased net interest income and the increased impairment allowances on financial assets.

Net interest income was HK\$1,463 million, decreased by 5.31% as compared with the same period last year, which was mainly attributable to the sharp interest rate cut policy, resulting in a rapid decline in market interest rate level. The Bank's net interest margin was 1.41% in the first half of 2020, decreased by 18 basis points from the same period last year.

Net fee and commission income increased by 25.38% to HK\$210 million, which was mainly attributable to the increase in fee income from securities dealings, wealth management income and loan-related businesses.

Net income from trading and investments recorded a gain of HK\$197 million, which was mainly due to the income from foreign exchange fund swap contracts, the profit from the sale of bonds and the considerable growth in the treasury customer business.

The Bank prudently managed costs and devoted efforts to improve efficiency gains and at the same time invested in talent resources and systems to support business growth and expansion in the Mainland.

Due to the growth in loans and advances to customers as well as changes in macroeconomic parameters in the risk model, the net impairment losses on financial assets amounted to HK\$298 million in the first half of 2020, representing an increase of HK\$202 million as compared with the same period last year. Impairment allowance on loans and advances to customers was HK\$711 million as of 30 June 2020, of which the allowance at stage three of HK\$168 million was within a sound and controllable range.

As of 30 June 2020, total loans and advances to customers increased by 9.25% to HK\$129 billion as compared to the position as of 31 December 2019. As the Bank has been adopting prudent business strategies and careful management of the exposure to credit risk, the asset quality of loans and advances remained sound and the non-performing loan ratio was 0.41% which was at a sound market level.

As for deposit, total deposits from customers as of 30 June 2020 increased by 3.84% to HK\$168.9 billion when compared to the position as of 31 December 2019. The Bank continued to maintain a stable deposit base to balance loan growth, wealth management and cross-border financial business development. Total assets for the period increased by 2.49% to HK\$218.1 billion. As of 30 June 2020, 77.14% of the Bank's assets were based in Hong Kong.

Due to proactive management of assets and liabilities, the Bank raised the level of loan to deposit ratio from 69.46% on 31 December 2019 to 72.38% on 30 June 2020, while keeping a sound level of liquidity maintenance ratio with an average of 45.19% in the first half of 2020.

Total capital ratio decreased from 17.51% in December 2019 to 16.40% in June 2020; the Tier 1 capital ratio was at 13.61% and the Common Equity Tier 1 capital ratio was at 11.66%.

Overall, the Bank's core businesses, financial position and asset quality are strong. The capital adequacy ratio and liquidity maintenance ratio are above the relevant statutory requirements.

INTERIM DIVIDEND

Facing the highly uncertain economic outlook and extremely challenging operating environment, and our regulator has advised that banks should reserve sufficient capital to meet future challenges, the Board has declared the payment of an interim cash dividend for 2020 of HK\$0.11 per share, payable on Thursday, 15 October 2020 to the shareholders whose names appear on the register of members of the Bank on Thursday, 8 October 2020 (2019 interim cash dividend: HK\$0.17 per share paid on Friday, 11 October 2019).

BUSINESS REVIEW

CORPORATE BANKING

Chong Hing Bank provides a full range of banking products and professional services to its corporate customers in Hong Kong and the Mainland, including corporate loans, trade finance, cash management and financial markets solutions. The Bank also leverages its competitive edge in network interactions between Hong Kong and the Mainland, providing a variety of cross-border financial products and services to accommodate its customers' funding requirements in the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area"), and effectively manages their interest rates and exchange risks through its treasury product portfolio.

To support local SMEs, apart from backing the HKSAR Government's "SME Loan Guarantee Scheme" and "SME Financing Guarantee Scheme" offered by HKMC Insurance Limited, the Bank has launched other SME relief measures in response to the pandemic. These include delaying implementation of the clean-up clause of revolving loans and overdraft facilities, extending expired term loan repayments or installment payments, and postponing principal repayment services for trade finance facilities. The Bank is also actively supporting the "Pre-approved Principal Payment Holiday Scheme" launched by the Hong Kong Monetary Authority together with the "Banking Sector SME Lending Coordination Mechanism", and provided support to the "Special 100% Loan Guarantee" under the "SME Financing Guarantee Scheme", aiming to alleviate cash flow pressures on its customers and help local SMEs cope with the challenging business environment.

In the first half of 2020, all corporate banking segments achieved good results:

- The Bank completed a total of 17 syndicated loans, and acted as a lead arranger and distributor for three of them. Besides, the Bank made transactions via the secondary market to continuously enhance credit asset quality and improve relevant returns.
- Leveraging on the fundamental strengths in Guangdong Province and Hong Kong, the Bank continued to provide professional cross-border financial services to onshore and offshore customers, successfully executing a number of structured finance transactions.
- Benefiting from the improvement in capital markets, the Bank's net interest income from non-banking financial institution business increased by more than 19% over the same period of last year.

Despite the shrinking of Hong Kong's economy and export business, the non-interest income from the Bank's corporate banking business grew steadily during the period, while net interest income remained at a level similar to that of the same period last year.

PERSONAL BANKING

The COVID-19 outbreak has depressed investment sentiment in the market and affected branch operations and personal banking business. To protect the health and safety of its customers and employees, the Bank has adopted special arrangements and measures throughout its branch operations, including temporarily shortening branch business hours, segregating customer queues, checking the temperature of each person that arrives at the branches, and providing pandemic-prevention supplies. Over 20% of the branches suspended their business temporarily in response to the pandemic. The Bank's flexible marketing arrangements, which shifted from face-to-face meetings with customers to online and telephone conversations, and internet banking service channels allowed the Bank to continue to provide quality banking services to meet customers' financial needs during the pandemic.

The developments of the personal banking business in the first half of 2020 are summarised as follows:

- To achieve its "customer-centric" mission and help customers cope with the challenging economic environment, the Bank launched a series of loan service relief measures for personal banking customers and supported the HKSAR Government's Cash Payout Scheme.
- After the Bank launched the "Cloud Rate" service, customers could open time deposits electronically without visiting branches in person. This service is fast and convenient, enhancing the customer experience.
- In order to meet the different needs of customers, the Bank actively explored diversified loan products. The net interest income of loans successfully turned to profit from the same period last year, and the number and amount of life insurance policy loans grew three-fold and seven-fold respectively as compared with last year.
- The Bank continued to optimise life insurance services. With the policy of actively enriching agency products and promoting financing business, the Bank provided customers with appropriate life insurance services to meet their needs during the pandemic, and the commission income during the period increased by 63% compared with the same period last year.
- For the investment business, upholding the "Finance + Technology" strategy, the Bank continuously optimised the financial technology platform and enriched the types of investment products so as to provide customers with one-stop online wealth management services. Benefiting from a discount on fund subscription fees with mobile banking, the number and amount of transactions during the period increased by 262% and 185% respectively as compared with the same period last year.

FINANCIAL MARKETS BUSINESS

The Bank is committed to developing its financial market business as an important profit hub. During the period, the Bank secured significant growth in areas such as treasury business, customer selling and product development. The Bank has established its proprietary trading business and, while keeping risks under control, enhanced its ability to provide quotations and expanded its market share, thereby continuing to increase revenue for the Bank.

Regarding the treasury business, the Bank aims to optimise its balance sheet by effectively applying a variety of financial instruments while complying with established risk appetites and risk limits to ensure a safe liquidity level. The Bank has continued to leverage on its dynamic investment strategies and capture potential treasury business opportunities to diversify revenue sources.

In accordance with the strategic establishment of the product and marketing team, the Bank has strategically acquired financial experts, enriched its financial products, and offered pertinent advice and services that cater to the needs of different customer segments, thereby increasing its market competitiveness and fee income.

MAINLAND OPERATIONS

In the first half of 2020, the Bank's Mainland branches and sub-branches responded actively to the challenges of the pandemic, a slowing economy and downward trending interest rates; the result was the achievement of steady growth in the scale of assets and liabilities, continuous improvements in profitability, steady improvements in asset quality, a gradual consolidation of the customer base, continuous enrichment of product categories, continuous optimisation of internal processes, and comprehensive improvements in risk control. As a result, the overall development was positive.

The electronic service level of the Bank's Mainland branches and sub-branches has continued to improve. The number and amount of online banking transactions increased rapidly, the number of bank-enterprise direct links increased steadily, and the bank-enterprise reconciliation management system was successfully launched.

The Mainland branches have successfully obtained a number of financial market business qualifications. The Guangzhou Branch became the first foreign bank branch in China to obtain membership in the local government bond underwriting syndicate at the end of 2019, and confirmed the first local government bond underwriting and issuing business involving a foreign bank branch in China at the beginning of this year. Meanwhile, the Shenzhen Branch and Guangzhou Branch gained approval to join the bond market of the stock exchange, with the Shenzhen Branch becoming the first foreign bank branch in China to be approved to enter the exchange bond market.

The Bank is committed to optimising cross-border services to meet its customers' cross-border business needs. During the period, cross-border settlements and cross-border financing grew rapidly, and the successful opening of the Mainland mortgage loan business for Hong Kong and Macau residents has facilitated the purchase by Hong Kong and Macau residents of properties in the Greater Bay Area. In addition, the Nansha Sub-branch established the "Service for Electronic Business Registration", making it the first bank outlet in Guangzhou's Nansha District to provide such services, and the second outlet to follow the Shenzhen Branch in providing self-service for business licence collections.

CHONG HING SECURITIES LIMITED

The economy faced severe challenges and the global financial market fluctuated abnormally as a result of the pandemic. Nevertheless, the US implemented a number of measures to stimulate the economy and cut interest rates, which greatly increased market funds, promoted securities transactions, and positively impacted the securities market. In the second quarter, the securities market became more active amid a slight easing of the outbreak in Hong Kong and the Mainland, and investors focused on new economy stocks. As a result, Chong Hing Securities's overall turnover and commission income increased by 41% and 34% respectively as compared with the same period last year. The upcoming mobile application for Chong Hing Securities, coupled with the building of relationships with existing customers and the prompt provision of promotional offers, will help to enhance trading activities by securities investment customers and drive the Bank's revenue growth.

CHONG HING INSURANCE COMPANY LIMITED

The unexpected pandemic has brought operational pressures to all sectors in Hong Kong, affecting the development of the general insurance market. However, driven by the prudent operations that Chong Hing Insurance has employed, gross premiums and pre-tax earnings remained stable during the period, and its overall performance was positive. Chong Hing Insurance will continue to work closely with the Bank and strive to explore new business opportunities to provide customers with even more comprehensive and friendly insurance services.

CHONG HING INSURANCE BROKERS LIMITED

Chong Hing Insurance Brokers Limited, a subsidiary of the Bank, was incorporated in September 2019, and officially opened in July 2020 to engage in the Hong Kong regulated insurance brokerage business.

Being the agent of the "Proposed Policy Owner", Chong Hing Insurance Brokers searches for suitable insurance solutions from different insurance companies according to customers' insurance and financial needs. Chong Hing Insurance Brokers will make every effort to expand the middle and high-end individual and corporate customers in Hong Kong and the Greater Bay Area and assist them in purchasing long-term life insurance in Hong Kong.

TRANSFORMATION OF BUSINESS DEVELOPMENT

Fintech

Chong Hing Bank continues to drive its financial technology and digital transformation, expand its online businesses and promote product innovation, constantly looking to provide better services to its customers. During the pandemic, the Bank actively launched and optimised its digital banking services with a customer-oriented mission, enabling customers to carry out their banking transactions from home. During the period, the number of digital banking transactions and active mobile banking customers increased by over 70% when compared to the same period last year.

In addition, the Bank has gradually implemented a number of new systems in recent years. This year, the Bank will further launch a robotic process automation project, develop independent software robots, and design process optimisation solutions for business units to expand the banking ecosystem and customer base by leveraging on different scenarios.

Operation Optimisation

The Bank is committed to strengthening operations and operational risk management, accelerating the Bank's development and transformation, and continuously improving customer experience and business efficiency.

- In the past three years, the Bank has successfully optimised more than 100 process projects in Hong Kong and the Mainland. During the period, the Bank further improved many business processes, including simplifying the account opening procedures for SMEs and start-ups and providing an online booking service for opening accounts.
- The Bank continued to centralise its operations across different operating areas so as to minimise operational risk.
- The Bank set up a customer experience team responsible for continuously conducting a "mystery customer service survey" to improve customer service.
- The Bank proactively promoted an increasingly digital online platform through the digital banking transformation teams in Hong Kong and Shenzhen.

CORPORATE CULTURE

The Bank further promoted its corporate culture among its employees. Various activities were carried out to raise their awareness and recognition of the importance of aligning work practices with the corporate values.

- "The 2nd Corporate Culture Ambassador Programme" was launched in which ambassadors from each unit were recruited to promote the corporate culture.
- The "Chong Hing People's Charter" was introduced to encourage employees to adopt the desired work practices and demonstrate the enterprise spirit and management concepts of the corporate culture.
- The Bank continued to encourage employees to make innovative suggestions for bringing improvement and driving the sustainable development of the Bank. A number of ideas covering background administration, system upgrading and corporate culture have been implemented.
- The Bank examined the cultural achievements and monitored the implementation of cultural projects to ensure that a good corporate culture exists at all levels of the Bank.

CORPORATE RESPONSIBILITY

Adhering to the corporate mission of "To benefit customers, employees, shareholders and the community", the Bank actively participates in social welfare and environmental protection activities and values highly the contributions made by its employees to the development of the Bank. During the period, the Bank won several ESG (Environmental, Social and Governance) awards and certifications:

- Participated in the "Earth Hour 2020" environmental protection activity.
- Won the "Platinum Award" for the fifth consecutive year for compliance with the "Charter on External Lighting" organised by the Environment Bureau of the HKSAR.
- Awarded for the first time the "Green Office" and "Eco-Healthy Workplace" certification issued by the World Green Organisation.
- Awarded for the first time the "Happy Company" logo presented by the Hong Kong Promoting Happiness Index Foundation and Hong Kong Productivity Council.
- Signed the "Joyful@Healthy Workplace" charter jointly organised by the Department of Health, the Labour Department and the Occupational Safety and Health Council, and promised to promote employees' health in three major areas - diet, physical activity and mental health.
- Won the 10 Years plus Caring Company Logo from the Hong Kong Council of Social Service.
- Won the "Raffle Tickets Selling Award" presented by the Tung Wah Group of Hospitals.
- Donated 25,000 face masks and 5,000 bottles of hand sanitiser to the Baptist Oi Kwan Social Service, Senior Citizen Home Safety Association and Hong Kong Association of the Deaf, providing pandemic-prevention support for underprivileged families, the elderly and people with disabilities, thereby fulfilling the corporate mission of "To benefit the community".

CORPORATE GOVERNANCE

The Bank fully recognises the importance of compliance with relevant regulations and regulatory requirements and the maintenance of good corporate governance standards to the sustainable development of the Bank. Hence the Bank adopts and implements corresponding measures to ensure compliance with relevant regulations and regulatory requirements in order to maintain high-quality corporate governance.

AWARDS AND RECOGNITIONS

The Bank is committed to providing quality banking services and improving operational efficiency. These efforts were recognised by the following awards in the first half of 2020:

- Selected among the "Top 1000 World Banks" by the British magazine "The Banker" for many years, and ranked among the top 400 for the first time in 2019. The Bank's ranking rose to 381st in 2020, up nearly 100 places in five years, showing continuous improvement in all-round strength.
- The "Best SME's Partner Award" from the Hong Kong General Chamber of Small and Medium Business, won for the 12th time, and the "Best SME's Partner Gold Award", won for two consecutive years.

FUTURE DEVELOPMENT

The global economic crisis triggered by COVID-19 has led to a sharp decline in economic activities, severely impacting all sectors in Hong Kong and the Mainland, posing unprecedented challenges to the banking sector.

Looking forward, with the support of its controlling shareholder Yuexiu Group, Chong Hing Bank will adopt a sound development strategy and strictly control risks. In addition, the Bank will proactively explore business opportunities in Hong Kong and the Mainland, strategically focusing on the Greater Bay Area throughout its development, expanding its outlet network in the Mainland, and striving to establish a Mainland-incorporated bank. With its high degree of integration of finance and technology, the Bank will bolster its digital transformation business team and actively explore and apply cross-border cooperation and financial technology development in the Greater Bay Area. It will thereby create new advantages in the digital front and steadily move towards achieving its corporate vision of becoming "an integrated commercial bank with cross-border expertise".

APPRECIATION

Facing the aggressive COVID-19 pandemic and the complex and volatile economic environment, the Bank, with its solid and stable foundation, will continue to monitor the pandemic's evolution and market conditions. Meanwhile, the Bank will take appropriate countermeasures to minimise the pandemic's impact on the Bank, alleviate pressures facing customers, and ensure sustainable business operations of the Bank.

In the midst of the challenges in 2020, I would like to extend my sincere gratitude to the Board of Directors for its wise leadership, and also to the excellent management team and all staff for their huge effort and positive attitude towards the pandemic by putting in their best efforts in their posts and overcoming difficulties together. I believe that Hong Kong's economy will gradually stabilise after the pandemic subsides. The Bank will strategically invest resources, actively strengthen risk management and service to customers, accelerate its digital transformation and strive to improve profitability, thereby laying a solid foundation for future development.

Zong Jianxin
Chief Executive

Hong Kong, 28 August 2020

DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE'S) INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2020, the interests and short positions of the Directors (including the Chief Executive) of the Bank in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO (the "Register"), or as otherwise notified to the Bank and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

INTERESTS IN SHARES AND/OR UNDERLYING SHARES OF THE BANK

Name of Director	Long/short position	Number of underlying shares held, nature and capacity of interests			Total interests	Approximate percentage of interests ⁽¹⁾
		Personal Interests (held as beneficial owner)	Family Interests (interest of spouse or child under 18)	Corporate Interests (interest of controlled corporation)		
Zong Jianxin	Long position	168,659 ⁽²⁾	–	–	168,659	0.017%
Lau Wai Man	Long position	77,031 ⁽²⁾	–	–	77,031	0.008%

Notes:

1. The approximate percentage of interests held was calculated on the basis of 972,526,094 ordinary shares of the Bank in issue as at 30 June 2020.
2. These represent the interests of award shares granted to the Directors under the Share Award Scheme adopted by the Bank on 27 February 2020. Details of award shares are set out under the sub-section headed "Share Award Scheme".

DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE'S) INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

INTERESTS IN SHARES AND/OR UNDERLYING SHARES IN THE ASSOCIATED CORPORATION OF THE BANK

Name of Director	Associated Corporation	Long/short position	Number of shares held, nature and capacity of interests			Total interests	Approximate percentage of interests ⁽¹⁾
			Personal Interests (held as beneficial owner)	Family Interests (interest of spouse or child under 18)	Corporate Interests (interest of corporation)		
Li Feng	Yuexiu Property Company Limited	Long position	172,900	–	–	172,900	0.001%
Lee Ka Lun	Yuexiu Property Company Limited	Long position	3,200,000	–	–	3,200,000	0.021%
Yu Lup Fat Joseph	Yuexiu Property Company Limited	Long position	4,000,000	–	–	4,000,000	0.026%

Note:

- The approximate percentage of interests held was calculated on the basis of 15,482,280,438 ordinary shares of Yuexiu Property Company Limited in issue as at 30 June 2020.

Save as disclosed above, as at 30 June 2020, to the knowledge of the Bank, none of the Directors (including the Chief Executive) of the Bank had any other interests or short positions in any shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the Register, or as otherwise notified to the Bank and the Stock Exchange pursuant to the Model Code.

Save as disclosed above and in the section headed "Share-Based Compensation Schemes", during the six months ended 30 June 2020, neither the Bank nor any of its subsidiary undertakings was a party to any arrangements to enable the Directors (including the Chief Executive) of the Bank (including their spouses or children under the age of 18) to acquire benefits by an acquisition of shares in, or debentures of, the Bank or any of its associated corporations (within the meaning of Part XV of the SFO).

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

As at 30 June 2020, the following parties, other than the Directors or the Chief Executive of the Bank, had interests or short positions in the shares and underlying shares of the Bank as recorded in the register required to be kept under section 336 of the SFO:

Name	Long/short position	Nature and capacity of interests	Number of ordinary shares held	Approximate percentage of interests ⁽¹⁾
Yuexiu Financial Holdings Limited ⁽²⁾	Long position	Direct interests/ Beneficial owner	729,394,500	75%
Yue Xiu Enterprises (Holdings) Limited ("YX Enterprises")	Long position	Corporate interests/ Interest of controlled corporation	729,394,500	75%
Guangzhou Yue Xiu Holdings Limited* (廣州越秀集團股份有限公司) ("GZYX Holdings")	Long position	Corporate interests/ Interest of controlled corporation	729,394,500	75%
Guangzhou Metro Group Co., Ltd.* (廣州地鐵集團有限公司) ⁽³⁾	Long position	Corporate interests/ Interest of controlled corporation	70,126,000	7.21%

Notes:

- The approximate percentage of interests held was calculated on the basis of 972,526,094 ordinary shares of the Bank in issue as at 30 June 2020.
- Yuexiu Financial Holdings Limited is wholly-owned by YX Enterprises, and YX Enterprises is wholly-owned by GZYX Holdings.
- Pursuant to the SFO, 廣州地鐵集團有限公司 (Guangzhou Metro Group Co., Ltd.*) is deemed to be interested in 70,126,000 ordinary shares of the Bank as a result of its indirect holding of such shares through its wholly-owned subsidiary, details of which were as follows:

Name	Long position in shares
Guangzhou Metro Investment Finance (HK) Limited (Note (i))	70,126,000

- (i) 70,126,000 ordinary shares of the Bank were held by Guangzhou Metro Investment Finance (HK) Limited, which is wholly-owned by 廣州地鐵集團有限公司 (Guangzhou Metro Group Co., Ltd.*). Guangzhou Metro Investment Finance (HK) Limited and 廣州地鐵集團有限公司 (Guangzhou Metro Group Co., Ltd.*) are legally and beneficially owned as to 7.21% by 70,126,000 ordinary shares of the Bank respectively.

* for identification purpose only

Save as disclosed above, as at 30 June 2020, no other person, other than the Directors or the Chief Executive of the Bank whose interests are set out in the above section headed "Directors' (including the Chief Executive's) interests and short positions in shares, underlying shares and debentures", had any interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept under section 336 of the SFO.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Bank is an authorized institution supervised by the Hong Kong Monetary Authority (the “HKMA”) under the Hong Kong Banking Ordinance. The Bank is committed to maintaining high standards of corporate governance, with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has applied the principles in the Corporate Governance Code (the “CG Code”) set out in Appendix 14 to the Listing Rules and the module on “Corporate Governance of Locally Incorporated Authorized Institutions” under the Supervisory Policy Manual issued by the HKMA to its corporate governance structure and practices.

Throughout the six months ended 30 June 2020, the Bank complied with all the applicable code provisions set out in the CG Code, except for deviation from the code provision A.4.1. Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Currently, all Non-executive Directors of the Bank are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Bank in accordance with the Bank’s Articles of Association.

COMPLIANCE WITH MODEL CODE

The Bank has adopted its own code for securities transactions by Directors on terms no less exacting than those set out in the Model Code. All the Directors confirmed, following specific enquiry by the Bank, that they have complied with the required standards set out in the Model Code and the Bank’s own code for securities transactions by Directors throughout the six months ended 30 June 2020.

REVIEW OF FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2020 have been reviewed by the Audit Committee and by the Bank’s auditor in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

DISCLOSURE OF CHANGES IN DIRECTORS' INFORMATION

In accordance with rule 13.51B(1) of the Listing Rules, the changes in information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Listing Rules since the date of the Bank's 2019 annual report and up to 28 August 2020 (being the date of approval of the Bank's interim report) are set out below:

Name of Director	Details of Changes
Cheng Yuk Wo <i>Independent Non-executive Director</i>	<ul style="list-style-type: none">Retired as an independent non-executive director and ceased to act as the chairman of the audit committee, a member of the nomination committee and remuneration committee of DTXS Silk Road Investment Holdings Company Limited (Stock Code: 00620), a company listed on the Stock Exchange, all with effect from 29 May 2020
Ma Chiu Cheung Andrew <i>Independent Non-executive Director</i>	<ul style="list-style-type: none">Retired as an independent non-executive director and a member of the audit committee, remuneration committee, nomination committee and corporate governance committee of C.P. Pokphand Co. Ltd. (Stock Code: 00043), a company listed on the Stock Exchange, all with effect from 5 June 2020

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

INTERIM DIVIDEND

The Board has declared an interim cash dividend for 2020 of HK\$0.11 per share, payable on Thursday, 15 October 2020, to the shareholders whose names appear on the register of members of the Bank on Thursday, 8 October 2020 (2019 interim cash dividend: HK\$0.17 per share paid on 11 October 2019).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Bank will be closed from Monday, 5 October 2020 to Thursday, 8 October 2020 (both dates inclusive) and no transfer of shares can be registered during the period. In order to qualify for the 2020 interim cash dividend, all transfer documents, together with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on Wednesday, 30 September 2020.

PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

Neither the Bank nor any of its subsidiaries has purchased, sold or redeemed any of the Bank's listed securities during the six months ended 30 June 2020.

SHARE-BASED COMPENSATION SCHEMES

The Bank operates two equity-settled share-based compensation schemes including a share option scheme (the "Share Option Scheme") and a share award scheme (the "Share Award Scheme"). Details of which are set out in the paragraphs below.

SHARE OPTION SCHEME

The Bank has no outstanding share options at the beginning and at the end of the period under review. During the period under review, no share options have been granted under the Share Option Scheme adopted by the Bank pursuant to a resolution passed on 9 May 2012 and there is no change in any terms of the Share Option Scheme. Details of the Share Option Scheme were disclosed in the 2019 annual report of the Bank.

SHARE AWARD SCHEME

The Bank adopted the Share Award Scheme on 27 February 2020 (the "Adoption Date") and, subject to any early termination as may be determined by the Board pursuant to the rules governing the Share Award Scheme adopted by the Board, as amended from time to time (the "Scheme Rules"), shall be valid and effective for a term of 10 years commencing on the Adoption Date.

The specific objectives of the Share Award Scheme are (i) to synchronize the employees' perspectives with shareholders through continuous shares incentives; (ii) to ensure that the interests returned to the employees in key positions are related to the shareholders; (iii) to attract the right talents for promoting the future development of the Group; (iv) to reduce the turnover of the employees in key positions, to strengthen the Group's performance; and (v) to reward the employees who have made outstanding contributions in driving the continuous business operation and development of the Group.

OTHER INFORMATION

Pursuant to the Scheme Rules, the Board may, from time to time, at its absolute discretion select any eligible participant(s) to participate in the Share Award Scheme as selected employee(s) and to grant the award shares, and determine the number of shares to be awarded as well as the terms and conditions to be complied with by any selected employee. A selected employee shall be entitled to receive the award shares on the vesting dates in accordance with the vesting schedule and upon the selected employee has satisfied all other vesting conditions as determined by the Board in its absolute discretion, if any.

According to the Scheme Rules, the award shares shall be vested in four tranches of which 25% of the award shares shall be vested in each of the first, the second, the third and the fourth calendar year of continuous service with the Group after the grant date.

The Board shall not make any further grant of award shares under the Share Award Scheme such that the total number of award shares granted under the Share Award Scheme will not exceed 10% of the total number of issued shares of the Bank as at the grant date. During the six months ended 30 June 2020, a total of not more than 1,601,000 award shares were granted under the Share Award Scheme, representing approximately 0.1646% of the shares in issue as at 30 June 2020.

As at 30 June 2020, there were a total of 245,690 outstanding award shares granted to the Directors of the Bank, details of which were as follows:

Name of Director	Date of grant	Number of Award Shares			As at 30 June 2020	Vesting Period
		As at 1 January 2020	Granted during the period	Vested during the period		
Zong Jianxin	16 March 2020	–	168,659	–	168,659	16 March 2021 to 16 March 2024
Lau Wai Man	16 March 2020	–	77,031	–	77,031	16 March 2021 to 16 March 2024

PUBLICATION OF 2020 INTERIM REPORT

The Bank's 2020 Interim Report in both English and Chinese is now available in printed form and on the websites of the Bank (www.chbank.com) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). Shareholders are encouraged to access the Bank's corporate communications in electronic form to help protect the environment. Notwithstanding any wish to the contrary the shareholders have previously conveyed to the Bank, shareholders may change their choice of language or means of receipt of the Bank's corporate communications free of charge at any time by reasonable notice in writing to the Bank c/o the Bank's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or via email to chbank.ecom@computershare.com.hk specifying their name, address and request.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of Chong Hing Bank Limited

(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 26 to 67, which comprises the interim condensed consolidated statement of financial position of Chong Hing Bank Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2020 and the interim condensed consolidated income statement, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 28 August 2020

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2020

				Six months ended 30 June	
	Notes	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)		
Interest income		2,998,803	3,115,800		
Interest expense		(1,536,144)	(1,571,125)		
Net interest income	6	1,462,659	1,544,675		
Fee and commission income		248,620	232,858		
Fee and commission expenses		(39,014)	(65,685)		
Net fee and commission income	7	209,606	167,173		
Net income from trading and investments	8	197,380	122,211		
Other operating income	9	80,182	82,458		
Operating expenses	10	(782,822)	(750,614)		
Operating profit before impairment allowances		1,167,005	1,165,903		
Net impairment losses on financial assets	11	(298,375)	(96,580)		
Operating profit after impairment allowances		868,630	1,069,323		
Net losses on disposal of equipment		(24)	(342)		
Net (losses) gains on fair value adjustments on investment properties	20	(7,400)	1,656		
Share of profits of associates		3,170	26,165		
Profit before taxation		864,376	1,096,802		
Taxation	12	(149,411)	(192,207)		
Profit for the period					
– Attributable to equity owners of the Bank	13	714,965	904,595		
Earnings per share – basic and diluted	13	HK\$0.64	HK\$0.85		

The notes on pages 32 to 67 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Profit for the period	714,965	904,595
Other comprehensive expenses		
Items that may not be reclassified subsequently to profit or loss:		
Net losses on investments in equity instruments measured at fair value through other comprehensive income ("FVOCI")	(10,431)	(528)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	(102,302)	(13,774)
Net (losses) gains on investments in debt instruments measured at FVOCI	(864,498)	295,954
Amount reclassified to profit or loss upon disposal of FVOCI debt securities	(60,590)	(27,496)
Income tax effect relating to disposal of financial assets measured at FVOCI	9,997	4,537
Income tax effect relating to fair value change of financial assets measured at FVOCI	148,387	(46,135)
Share of other comprehensive income of associates	(15,033)	11,486
Other comprehensive (expenses) income for the period (net of tax)	(894,470)	224,044
Total comprehensive (expenses) income for the period	(179,505)	1,128,639
Total comprehensive (expenses) income for the period attributable to: Equity owners of the Bank	(179,505)	1,128,639

The notes on pages 32 to 67 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Assets			
Cash and short-term funds	15	17,620,648	20,404,505
Placements with banks maturing between one to twelve months		1,486,617	5,525,049
Derivative financial instruments	16	737,462	705,930
Investments in securities	17	57,999,757	57,534,593
Advances and other accounts	19	137,548,358	125,982,796
Tax recoverable		90,260	–
Interests in associates		363,281	377,244
Investment properties	20	298,193	306,610
Property and equipment	21	1,033,052	1,124,251
Deferred tax assets	28	73,675	28,767
Intangible assets	22	806,782	778,289
Total assets		218,058,085	212,768,034
Liabilities			
Deposits and balances of banks		7,122,005	6,949,921
Financial assets sold under repurchase agreements	23	6,292,993	4,253,852
Deposits from customers	24	168,913,133	162,664,648
Derivative financial instruments	16	3,377,037	1,902,951
Other accounts and accruals	25	3,371,028	3,172,687
Current tax liabilities		2,845	486,528
Certificates of deposit	26	77,495	3,749,075
Loan capital	27	4,647,976	4,579,912
Deferred tax liabilities	28	55,223	145,247
Total liabilities		193,859,735	187,904,821
Equity attributable to owners of the Bank			
Share capital		9,977,060	9,977,060
Additional equity instruments	29	3,111,315	3,111,315
Reserves		11,109,975	11,774,838
Total equity		24,198,350	24,863,213
Total liabilities and equity		218,058,085	212,768,034

The notes on pages 32 to 67 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Note	Additional equity instruments		Goodwill	Share-	Investment revaluation reserve	Land and	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
		Share capital	instruments		based payment reserve		building revaluation reserve					
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2020		9,977,060	3,111,315	(182)	-	443,969	179,633	1,388,500	(171,599)	1,039,000	8,895,517	24,863,213
Profit for the period		-	-	-	-	-	-	-	-	-	714,965	714,965
Other comprehensive expenses		-	-	-	-	(792,168)	-	-	(102,302)	-	-	(894,470)
Total comprehensive (expenses) income for the period		-	-	-	-	(792,168)	-	-	(102,302)	-	714,965	(179,505)
Equity settled share-based transaction		-	-	-	2,143	-	-	-	-	-	-	2,143
Distribution payment for additional equity instruments		-	(88,765)	-	-	-	-	-	-	-	-	(88,765)
Transfer from retained profits		-	88,765	-	-	-	-	-	-	-	(88,765)	-
Final dividend paid	14	-	-	-	-	-	-	-	-	-	(398,736)	(398,736)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	-	-	(549,000)	549,000	-
At 30 June 2020		<u>9,977,060</u>	<u>3,111,315</u>	<u>(182)</u>	<u>2,143</u>	<u>(348,199)</u>	<u>179,633</u>	<u>1,388,500</u>	<u>(273,901)</u>	<u>490,000</u>	<u>9,671,981</u>	<u>24,198,350</u>
At 1 January 2019		9,977,060	2,312,030	(182)	-	7,092	179,633	1,388,500	(113,933)	912,000	7,880,129	22,542,329
Profit for the period		-	-	-	-	-	-	-	-	-	904,595	904,595
Other comprehensive income (expenses)		-	-	-	-	237,818	-	-	(13,774)	-	-	224,044
Total comprehensive income (expenses) for the period		-	-	-	-	237,818	-	-	(13,774)	-	904,595	1,128,639
Equity settled share-based transaction		-	-	-	-	-	-	-	-	-	-	-
Distribution payment for additional equity instruments		-	(76,536)	-	-	-	-	-	-	-	-	(76,536)
Transfer from retained profits		-	76,536	-	-	-	-	-	-	-	(76,536)	-
Final dividend paid	14	-	-	-	-	-	-	-	-	-	(398,736)	(398,736)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	-	-	48,000	(48,000)	-
At 30 June 2019		<u>9,977,060</u>	<u>2,312,030</u>	<u>(182)</u>	<u>-</u>	<u>244,910</u>	<u>179,633</u>	<u>1,388,500</u>	<u>(127,707)</u>	<u>960,000</u>	<u>8,261,452</u>	<u>23,195,696</u>

The retained profits of the Group included retained profits of HK\$168,465,000 (30 June 2019: retained profits of HK\$183,817,000) retained by the associates of the Group.

The regulatory reserve is set up in compliance with the requirements of the Hong Kong Monetary Authority (the "HKMA") and is distributable to the shareholders of the Bank subject to consultation with the HKMA.

The general reserve comprises transfers from previous years' retained profits.

The notes on pages 32 to 67 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
OPERATING ACTIVITIES		
Profit before taxation	864,376	1,096,802
Adjustments for:		
Net interest income	(1,462,659)	(1,544,675)
Net impairment losses on financial assets	298,375	96,580
Net losses on disposal of property and equipment	24	342
Net gains on disposal of financial assets measured at FVOCI	(60,590)	(27,496)
Net losses (gains) on fair value adjustments on investment properties	7,400	(1,656)
Share of profits of associates	(3,170)	(26,165)
Net gains on fair value hedge	(7,128)	(7,853)
Dividend received from investments	(8,503)	(3,918)
Depreciation and amortisation	137,638	111,155
Equity settled share-based payment expenses	2,143	–
Exchange adjustments	(23,390)	(57,357)
Operating cash flows before movements in operating assets and liabilities	(255,484)	(364,241)
(Increase) decrease in operating assets:		
Money at call and short notice with original maturity over three months	13,155	200,109
Placements with banks with original maturity over three months	3,326,435	3,062,818
Financial assets at fair value through profit or loss	13,509	(863)
Advances to customers	(11,027,102)	(7,549,303)
Advances to banks	70,598	334,895
Other accounts	(1,046,967)	(1,357,630)
Increase (decrease) in operating liabilities:		
Deposits and balances of banks	172,084	5,578,812
Financial assets sold under repurchase agreements	2,039,141	611,054
Deposits from customers	6,248,485	3,687,770
Certificates of deposit	(3,671,580)	1,401,973
Derivative financial instruments	(176,751)	177,328
Other accounts and accruals	446,948	(190,224)
Cash (used in) generated from operations	(3,847,529)	5,592,498
Hong Kong Profits Tax paid	(650,523)	20
Overseas tax paid	(48,517)	(41,320)
Interest received	2,645,259	2,329,245
Interest paid	(1,608,813)	(1,083,442)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	(3,510,123)	6,797,001

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
INVESTING ACTIVITIES		
Interest received on investments in securities	522,638	661,515
Dividends received on investments in securities	8,503	3,918
Dividends received from associates	2,100	2,100
Purchase of financial assets measured at amortised cost	(159,389)	(173,989)
Purchase of financial assets measured at FVOCI	(73,877,499)	(36,289,956)
Purchase of property and equipment	(41,131)	(19,860)
Purchase of intangible assets	(31,734)	(50,387)
Proceeds from redemption of financial assets measured at amortised cost	160,199	218,453
Proceeds from sale and redemption of financial assets measured at FVOCI	74,117,146	31,211,505
Proceeds from disposal of equipment	1	–
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	700,834	(4,436,701)
FINANCING ACTIVITIES		
Interest paid on loan capital	(97,695)	(98,181)
Interest paid on debt securities issued	–	(62,103)
Redemption of debt securities issued	–	(1,708,650)
Payment of lease liabilities	(88,214)	(69,919)
Dividends paid to ordinary shareholders	(398,736)	(398,736)
Distribution paid on additional equity instruments	(88,765)	(76,536)
NET CASH USED IN FINANCING ACTIVITIES	(673,410)	(2,414,125)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,482,699)	(53,825)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	22,298,698	30,694,891
CASH AND CASH EQUIVALENTS AT 30 JUNE	18,815,999	30,641,066
Represented by:		
Cash and balances with central bank and banks	5,395,312	7,239,211
Money at call and short notice with original maturity of less than three months	12,117,835	16,360,348
Placements with banks maturing between one to twelve months with original maturity of less than three months	1,302,852	7,041,507
	18,815,999	30,641,066

The notes on pages 32 to 67 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

1. GENERAL INFORMATION

Chong Hing Bank Limited (the "Bank") is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Bank is engaged in the provision of banking and related financial services. The address of the registered office of the Bank is Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong.

The condensed consolidated interim financial information is presented in Hong Kong dollars, which is the same as the functional currency of the Bank.

The financial information relating to the year ended 31 December 2019 that is included in the condensed consolidated interim financial information for the six months ended 30 June 2020 as comparative information does not constitute the Bank's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Bank has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Bank's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report, and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019, as described in those annual financial statements, except for the adoption of new and amended standards as set out below.

NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

A number of new or amended standards became applicable for the current reporting period, and the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

The following amendments to accounting standards are applicable for reporting periods commencing on or after 1 January 2020:

- Definition of Material – amendments to Hong Kong Accounting Standard (“HKAS”) 1 and HKAS 8
- Definition of a Business – amendments to Hong Kong Financial Reporting Standard (“HKFRS”) 3
- Revised Conceptual Framework for Financial Reporting
- COVID-19-related Rent Concession (Amendment to HKFRS 16)
- Interest Rate Benchmark Reform – amendments to HKFRS 9, HKAS 39 and HKFRS 7

Interest rate benchmark reform is the market-wide initiative to replace or reform interbank offered rates (“IBORs”) with alternatively risk-free interest rates (“RFRs”). The amendments modify the some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by the interest rate benchmark reform.

Significant judgement will be required in determining when uncertainty is expected to be resolved and when the temporary exceptions will cease to apply. As at 30 June 2020, there is still uncertainty on the IBORs and the Group has applied the temporary exceptions on the all of the hedge accounting relationships that reference benchmarks subject to reform or replacement. The Group has closely monitored the market progress on the transition of IBORs to RFRs.

The Group designated certain interest rate swaps, exposed to different IBORs, predominantly US Dollar LIBOR, as fair value hedge of investments in debt instruments measured at FVOCI and subordinated note issued. The notional amounts of interest rate swaps designated in hedge accounting relationship impacted by the exception as at 30 June 2020 is approximately HK\$32 billion.

There are no other HKFRSs or interpretations that are effective from 1 January 2020 or not yet effective that would be expected to have a material impact on the Group.

In addition, the Group has adopted the Share Award Scheme on 27 February 2020 and award shares have been issued during the period. Under the Share Award Scheme, shares issued by the Group to employees for no cash consideration. The market value of the shares issued is recognised as staff costs with a corresponding increase in equity over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of shares that are expected to vest based on service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

3. SEGMENT INFORMATION

The Group's operating segments, which are also the reportable segments, based on information regularly reviewed by the chief operating decision maker (Executive Committee of the Group) for the purposes of allocating resources to segments and assessing their performance on business divisions of the Group, are as follows:

1. Corporate and personal banking
2. Financial markets activities
3. Securities business
4. Others comprising investment holding, insurance, other investment advisory services and property investments.

No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

3. SEGMENT INFORMATION *(Continued)*

The following is an analysis of the Group's revenue and results by reportable and operating segment for the periods under review:

OPERATING SEGMENT REVENUE AND RESULTS

Six months ended 30 June 2020

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	2,353,453	637,689	4,500	3,161	-	2,998,803
Interest expense to external customers	(1,351,378)	(82,354)	-	(102,412)	-	(1,536,144)
Inter-segment interest income <i>(Note 1)</i>	193,478	-	-	215,850	(409,328)	-
Inter-segment interest expense <i>(Note 1)</i>	-	(409,328)	-	-	409,328	-
Net interest income	1,195,553	146,007	4,500	116,599	-	1,462,659
Fee and commission income	178,257	1,722	68,275	366	-	248,620
Fee and commission expenses	(38,697)	(55)	(262)	-	-	(39,014)
Net income from trading and investments	123,705	83,319	(108)	(9,536)	-	197,380
Other operating income	44,288	-	3,028	32,866	-	80,182
Segment revenue						
Total operating income	1,503,106	230,993	75,433	140,295	-	1,949,827
Comprising:						
- Segment revenue from external customers	1,309,628	640,321	75,433	(75,555)		
- Inter-segment transactions	193,478	(409,328)	-	215,850		
Operating expenses <i>(Note 2)</i>	(657,776)	(59,102)	(40,200)	(25,744)	-	(782,822)
Net impairment losses on financial assets	(217,263)	(81,104)	1	(9)	-	(298,375)
Net losses on disposal of equipment	-	-	-	(24)	-	(24)
Net (losses) gains on fair value adjustments on investment properties	-	-	-	(7,400)	-	(7,400)
Segment profit	628,067	90,787	35,234	107,118	-	861,206
Unallocated corporate expenses						-
Share of profits of associates						3,170
Profit before taxation						864,376

Notes:

- Inter-segment pricing for funding transactions is charged with reference to prevailing market interest rates.
- The difference between the operating expenses in the condensed consolidated income statement and the operating expenses in the operating segments is the unallocated corporate expenses.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

3. SEGMENT INFORMATION *(Continued)*

OPERATING SEGMENT ASSETS AND LIABILITIES

At 30 June 2020

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	139,870,244	74,213,443	419,915	588,123	215,091,725
Interests in associates					363,281
Unallocated corporate assets					2,603,079
Consolidated total assets					<u>218,058,085</u>
Liabilities					
Segment liabilities	170,403,121	21,956,945	281,584	182,506	192,824,156
Unallocated corporate liabilities					1,035,579
Consolidated total liabilities					<u>193,859,735</u>

OTHER INFORMATION

Six months ended 30 June 2020

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure during the period	20,054	51	54	30	52,676	72,865
Depreciation and amortisation	82,471	7,005	6,275	4,102	37,785	137,638

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

3. SEGMENT INFORMATION (Continued)

OPERATING SEGMENT REVENUE AND RESULTS

Six months ended 30 June 2019

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	2,080,785	1,004,112	4,100	26,803	-	3,115,800
Interest expense to external customers	(1,123,679)	(292,446)	-	(155,000)	-	(1,571,125)
Inter-segment interest income (Note 1)	278,991	-	-	249,991	(528,982)	-
Inter-segment interest expense (Note 1)	-	(528,982)	-	-	528,982	-
Net interest income	1,236,097	182,684	4,100	121,794	-	1,544,675
Fee and commission income	177,230	-	53,017	2,611	-	232,858
Fee and commission expenses	(65,427)	(233)	(25)	-	-	(65,685)
Net income from trading and investments	64,199	60,027	28	(2,043)	-	122,211
Other operating income	65,292	-	399	36,057	(19,290)	82,458
Segment revenue						
Total operating income	1,477,391	242,478	57,519	158,419	(19,290)	1,916,517
Comprising:						
- Segment revenue from external customers	1,198,400	771,460	57,519	(91,572)		
- Inter-segment transactions	278,991	(528,982)	-	249,991		
Operating expenses (Note 2)	(647,765)	(52,288)	(40,390)	(29,443)	19,290	(750,596)
Net impairment losses on financial assets	(68,684)	(27,900)	-	4	-	(96,580)
Net losses on disposal of equipment	-	-	-	(342)	-	(342)
Net (losses) gains on fair value adjustments on investment properties	-	-	-	1,656	-	1,656
Segment profit	760,942	162,290	17,129	130,294	-	1,070,655
Unallocated corporate expenses						(18)
Share of profits of associates						26,165
Profit before taxation						1,096,802

Notes:

- Inter-segment pricing for funding transactions is charged at with reference to prevailing market interest rates.
- The difference between the operating expenses in the condensed consolidated income statement and the operating expenses in the operating segments is the unallocated corporate expenses.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

3. SEGMENT INFORMATION *(Continued)*

OPERATING SEGMENT ASSETS AND LIABILITIES

At 31 December 2019

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	127,757,395	81,513,885	372,672	975,513	210,619,465
Interests in associates					377,244
Unallocated corporate assets					1,771,325
					<u>212,768,034</u>
Liabilities					
Segment liabilities	163,673,166	22,019,638	221,858	183,026	186,097,688
Unallocated corporate liabilities					1,807,133
					<u>187,904,821</u>

OTHER INFORMATION

Six months ended 30 June 2019

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure during the period	11,574	40	49	1	58,583	70,247
Depreciation and amortisation	73,661	4,891	4,686	369	27,548	111,155

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

3. SEGMENT INFORMATION *(Continued)*

OTHER INFORMATION *(Continued)*

All direct costs incurred by different segments are grouped under respective segments. Indirect costs and support functions' costs are allocated to various segments and products based on effort and time spent while segments' other operating income is allocated depending on the nature of costs incurred. Indirect costs and support functions' costs and income related to corporate activities that cannot be reasonably allocated to segments or products are grouped as unallocated corporate expenses and unallocated corporate income respectively. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of performance.

There is no operating income with a single external customer amounting to or exceeding 10% of the Group's and the Bank's total operating income.

Assets and liabilities related to corporate activities that cannot be reasonably allocated to segments, products and support functions are grouped as unallocated corporate assets and liabilities. All direct segment assets and liabilities are grouped under respective segments.

GEOGRAPHICAL INFORMATION

Geographical information (including geographical analysis of total segment revenue) 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. Non-current assets presented below are based on the location of the entities' country of domicile which is the same as the location of the non-current assets.

	Six months ended 30 June 2020			At 30 June 2020										
	Total operating income	Profit before taxation	Capital expenditure during the period	Total assets	Total liabilities	Total contingent liabilities and commitments	Non-current assets							
								HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
								Hong Kong	1,470,575	604,093	65,902	168,217,311	149,388,191	34,594,189
Mainland China	453,381	242,297	6,962	48,802,773	43,841,836	9,874,508	177,851							
Macau and others	25,871	17,986	1	1,038,001	629,708	797,924	5,710							
Total	1,949,827	864,376	72,865	218,058,085	193,859,735	45,266,621	2,574,983							

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

3. SEGMENT INFORMATION *(Continued)*

GEOGRAPHICAL INFORMATION *(Continued)*

	Six months ended 30 June 2019			At 31 December 2019										
	Total operating income	Profit before taxation	Capital expenditure during the period	Total assets	Total liabilities	Total contingent liabilities and commitments	Non-current assets							
								HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
								Hong Kong	1,586,218	1,028,125	61,636	167,367,304	147,671,184	32,637,540
Mainland China	299,139	42,150	8,611	44,541,771	39,713,076	13,554,034	242,972							
Macau and others	31,160	26,527	–	858,959	520,561	23,876	1,449							
Total	1,916,517	1,096,802	70,247	212,768,034	187,904,821	46,215,450	2,615,161							

Note:

Total operating income consists of net interest income, net fee and commission income, net income from trading and investments and other operating income.

Non-current assets consist of interests in associates, investment properties, property and equipment and intangible assets.

4. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

4.1 FAIR VALUE ESTIMATION

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 30 June 2020.

	Fair value hierarchy			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
At 30 June 2020				
Financial assets measured at fair value through profit or loss				
Equity securities	91	–	–	91
Debt securities	127,087	–	–	127,087
Financial assets measured at FVOCI				
Equity securities	39,917	–	39,286	79,203
Debt securities	56,567,278	751,860	–	57,319,138
Derivative financial assets not used for hedging	–	622,836	–	622,836
Derivative financial assets used for hedging	–	114,626	–	114,626
Derivative financial liabilities not used for hedging	–	(590,103)	–	(590,103)
Derivative financial liabilities used for hedging	–	(2,786,934)	–	(2,786,934)
Total	56,734,373	(1,887,715)	39,286	54,885,944

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

4. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

4.1 FAIR VALUE ESTIMATION *(Continued)*

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 31 December 2019.

	Fair value hierarchy			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
At 31 December 2019				
Financial assets measured at fair value through profit or loss				
Equity securities	193	–	–	193
Debt securities	140,494	–	–	140,494
Financial assets measured at FVOCI				
Equity securities	49,736	–	39,884	89,620
Debt securities	55,039,373	1,784,280	–	56,823,653
Derivative financial assets not used for hedging				
	–	675,033	–	675,033
Derivative financial assets used for hedging				
	–	30,897	–	30,897
Derivative financial liabilities not used for hedging				
	–	(670,656)	–	(670,656)
Derivative financial liabilities used for hedging				
	–	(1,232,295)	–	(1,232,295)
Total	55,229,796	587,259	39,884	55,856,939

There was no transfer between Levels 1, 2 and 3 during the current and prior reporting period.

Except as detailed in the following table, the directors of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated interim financial information approximate their fair values.

4. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

4.1 FAIR VALUE ESTIMATION *(Continued)*

	Carrying amount HK\$'000	Fair value HK\$'000
At 30 June 2020		
Financial assets		
– Financial assets measured at amortised cost	<u>474,238</u>	<u>484,894</u>
Financial liabilities		
– Loan capital	<u>4,647,976</u>	<u>4,504,945</u>
At 31 December 2019		
Financial assets		
– Financial assets measured at amortised cost	<u>480,633</u>	<u>487,531</u>
Financial liabilities		
– Loan capital	<u>4,579,912</u>	<u>4,552,942</u>

4.2 VALUATION TECHNIQUES

The fair value of listed securities is determined with reference to quoted market bid prices from relevant stock exchanges.

The fair values of debt securities classified as FVOCI, certificates of deposit and other debt securities classified as amortised cost securities and loan capital are determined based on indicative prices provided by the dealers and brokers. In addition, the Group makes comparison of the indicative prices with the prices obtained from pricing service providers and other service providers and with the values calculated using valuation models such as discounted cash flows method to substantiate the indicative prices of the debt securities. The key inputs used in the valuation models are the interest rate data, which are observable at the end of the reporting period. The objective of valuation models is to arrive at a fair value estimation that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The fair value of foreign currency forward contracts is measured by comparing the contracted forward rates and the quoted forward exchange rates, which are observable at the end of the reporting period.

The fair value of interest rate swaps and cross-currency interest rate swaps are measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, which are observable at the end of the reporting period.

The financial markets have experienced a significant increase in price volatility across all financial instruments as a result of the outbreak of COVID-19 in the first half of 2020. The impact of COVID-19 should have been reflected in the market price of the financial instruments. There were no changes in the Group's valuation techniques during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

4. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

4.3 RECONCILIATION OF LEVEL 3 FAIR VALUE MEASUREMENTS OF FINANCIAL ASSETS

	Financial assets measured at FVOCI HK\$'000
Balance at 1 January 2019	40,954
Exchange difference	(1,070)
Balance at 31 December 2019/1 January 2020	39,884
Exchange difference	(598)
Balance at 30 June 2020	39,286

The majority of the Group's investments are valued based on quoted market information or observable market data. A small percentage, less than 0.02% (31 December 2019: less than 0.02%), assets recorded at fair value, are based on estimates and recorded as Level 3 investments. Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not have a material impact on the Group's financial positions.

5. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group has financial assets and financial liabilities that:

- are offset in the Group's condensed consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the condensed consolidated statement of financial position.

The Group entered into International Swaps and Derivatives Association ("ISDA") Master Agreements and Global Master Repurchase Agreements ("GMRA") for derivatives and sale and repurchase agreements. In addition, the Group receives and pledges collateral in the form of cash in respect of its derivative transactions and sale and repurchase agreements. Such collateral is subject to the standard industry terms of ISDA Credit Support Annex or GMRA. Collateral received or pledged must be returned on maturity of the transactions.

Under the Continuous Net Settlement, money obligations receivable and payable with the Hong Kong Securities Clearing Company Limited on the same settlement date are settled on a net basis.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

6. NET INTEREST INCOME

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Interest income		
Balances and placements with central bank and banks	214,954	374,204
Investments in securities	574,594	771,119
Loans and advances	2,209,255	1,970,477
	<u>2,998,803</u>	<u>3,115,800</u>
Interest expense		
Deposits and balances of banks	(102,526)	(205,686)
Deposits from customers	(1,277,686)	(1,076,023)
Financial assets sold under repurchase agreements	(29,956)	(87,375)
Certificates of deposit	(25,100)	(47,831)
Debt securities issued	–	(25,249)
Loan capital in issue	(92,023)	(119,934)
Lease liabilities	(8,853)	(9,027)
	<u>(1,536,144)</u>	<u>(1,571,125)</u>
Net interest income	<u>1,462,659</u>	<u>1,544,675</u>
Included within interest income		
Interest income on impaired loans and advances	<u>4,625</u>	<u>5,775</u>

Included within interest income and interest expense are HK\$2,998,803,000 (2019: HK\$3,113,098,000) and HK\$1,536,144,000 (2019: HK\$1,571,125,000) earned and incurred from financial assets and financial liabilities that are not recognised at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in debt securities of HK\$574,594,000 (2019: HK\$771,119,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

7. NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Fee and commission income		
Securities dealings	70,323	53,583
Loans, overdrafts and guarantees	71,095	55,350
Trade finance	6,932	7,127
Credit card services	40,175	67,020
Agency services	51,852	42,365
Others	8,243	7,413
Total fee and commission income	248,620	232,858
Less: Fee and commission expenses	(39,014)	(65,685)
Net fee and commission income	209,606	167,173
of which:		
Net fee and commission, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities, that are not recognised at fair value through profit or loss		
– Fee income	96,252	103,483
– Fee expenses	(36,307)	(63,527)
	59,945	39,956

Comparative figures for certain credit card services related expenses of HK\$5,904,000 have been reclassified from other operating expenses to fee and commission expenses to conform to current period's presentation.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

8. NET INCOME FROM TRADING AND INVESTMENTS

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Foreign exchange gains	127,424	78,546
Net gains on financial instruments at fair value through profit or loss	2,238	8,316
Net gains on fair value hedge:		
– Net gains on hedged items attributable to the hedged risk	1,626,433	1,074,989
– Net losses on hedging instruments	(1,619,305)	(1,067,136)
Net gains on disposal of financial assets at FVOCI		
– Debt securities	60,590	27,496
	197,380	122,211

"Foreign exchange gains" includes gains and losses from spot and forward contracts, swaps and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship.

The Group entered into foreign exchange swaps for its liquidity management and funding activities. It involves swapping a currency ("original currency") into another currency ("swap currency") at the spot exchange rate for short-term placement and simultaneously entering into a forward contract to convert the funds back to the original currency on maturity of the placement. The exchange difference between the spot and forward contracts as well as the corresponding interest differential between the surplus funds in the original currency and swap currency are recognised as "Foreign exchange gains (losses)".

Net gains on disposal of the financial assets at FVOCI were included in the net income from trading and investments of the Group which form part of the business operation. This is in line with the current business model of the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

9. OTHER OPERATING INCOME

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Dividend income		
– Listed investments	5,648	1,043
– Unlisted investments	2,855	2,875
	8,503	3,918
Gross rents from investment properties	4,494	4,358
Less: Outgoings	(196)	(187)
Net rental income	4,298	4,171
Safe deposit box rentals	27,737	28,521
Net insurance income (<i>Note</i>)	8,028	13,520
Other banking services income	28,677	27,440
Others	2,939	4,888
	<u>80,182</u>	<u>82,458</u>

Note: Details of net insurance income are as follows:

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Gross insurance premium income	20,127	20,209
Reinsurers' share of gross insurance premium income	(5,856)	(6,134)
	14,271	14,075
Decrease in gross outstanding claims	5,220	3,514
Gross claim paid	(10,937)	(6,593)
	(5,717)	(3,079)
(Decrease) Increase in recoverable from reinsurance of outstanding claims	(4,573)	376
Reinsurance claims recoveries	2,433	209
	(2,140)	585
Net insurance commission income	1,614	1,939
Net insurance income	<u>8,028</u>	<u>13,520</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

10. OPERATING EXPENSES

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Auditor's remuneration	3,808	3,860
Staff costs (including directors' emoluments)		
– Salaries and other costs	474,277	481,671
– Retirement benefits scheme contributions	24,986	24,258
– Equity settled share-based payment	2,143	–
– Capitalised to intangible assets	(26,776)	(23,948)
Total staff costs	474,630	481,981
Depreciation		
– Property and equipment	39,967	35,462
– Right-of-use assets	100,098	73,649
– Government grants (<i>Note</i>)	(4,534)	(1,535)
	135,531	107,576
Amortisation of intangible assets	2,107	2,044
Premises and equipment expenses, excluding depreciation		
– Rentals and rates for premises	4,151	4,407
– Expenses relating to short-term leases	1,450	20,507
– Expenses relating to leases of low-value assets	25	3
– Capitalised to intangible assets	(1,345)	(1,444)
	4,281	23,473
– Others	5,874	6,608
Other operating expenses	157,337	125,830
– Capitalised to intangible assets	(746)	(758)
	156,591	125,072
	782,822	750,614

Comparative figures for certain credit card services related expenses of HK\$5,904,000 have been reclassified from other operating expenses to fee and commission expenses and certain non-salary staff related expenses of HK\$27,281,000 included in other operating expenses, have been reclassified to salaries and other costs to conform to current period's presentation.

Note: Government grants were received by the Group from the Government of the People's Republic of China for office rental in Shenzhen. There are no unfulfilled conditions or contingencies relating to these grants.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

11. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Loans and advances to customers	203,434	64,392
Short-term funds and placement with banks	8,740	3,312
Investment in securities	77,826	26,139
Loan commitments and financial guarantees	8,375	2,737
	<u>298,375</u>	<u>96,580</u>

12. TAXATION

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax	102,436	116,152
Overseas taxation	22,661	42,192
Deferred tax	24,314	33,863
	<u>149,411</u>	<u>192,207</u>

Hong Kong Profits Tax is calculated at 16.5% (2019: 16.5%) of the estimated assessable profit for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

13. EARNINGS PER SHARE – BASIC AND DILUTED

The calculation of basic earnings per share is based on the profit attributable to equity owners of the Bank of HK\$714,965,000 (2019: HK\$904,595,000) with deduction of distribution payment for additional equity instruments of HK\$88,765,000 (2019: HK\$76,536,000) and on 972,526,000 (2019: 972,526,000) ordinary shares in issue.

There were no potential dilutive instrument in issue during both periods.

14. DIVIDENDS

On 2 June 2020, a dividend of HK\$0.41 per share totalling HK\$398,736,000 was paid to shareholders as the final dividend for 2019.

On 4 June 2019, a dividend of HK\$0.41 per share totalling HK\$398,736,000 was paid to shareholders as the final dividend for 2018.

Subsequent to the end of the interim period, the Board has declared a total amount of interim dividend in respect of the financial year ending 31 December 2020 of HK\$106,978,000 (2019: HK\$165,329,000) at a rate of HK\$0.11 (2019: HK\$0.17) per share should be paid to the shareholders of the Bank whose names appear on the Register of Members on 8 October 2020.

15. CASH AND SHORT-TERM FUNDS

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Cash and balances with central bank and banks	5,395,312	5,703,209
Money at call and short notice	12,225,336	14,701,296
	17,620,648	20,404,505

Included in the "Cash and balances with central bank and banks" are surplus reserve deposits placed with People's Bank of China by the Mainland branches of HK\$489,349,000 (31 December 2019: HK\$724,351,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

16. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2020		
	Notional amount HK\$'000	Fair value	
		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading			
– Foreign currency forward contracts and swaps	165,178,089	467,844	435,330
– Foreign exchange options	2,748,935	35,935	36,456
– Interest rate swaps	25,194,548	119,057	118,219
– Futures	50,376	–	98
Derivatives designated as hedging instruments			
– Interest rate swaps	33,190,963	114,626	2,786,934
		<u>737,462</u>	<u>3,377,037</u>

	31 December 2019		
	Notional amount HK\$'000	Fair value	
		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading			
– Foreign currency forward contracts and swaps	186,312,939	606,575	603,091
– Foreign exchange options	3,264,209	25,849	25,845
– Interest rate swaps	43,402,994	42,573	41,694
– Futures	358,179	36	26
Derivatives designated as hedging instruments			
– Interest rate swaps	35,920,843	30,897	1,232,295
		<u>705,930</u>	<u>1,902,951</u>

As at 30 June 2020, all of these contracts have settlement dates within 5 years (31 December 2019: 3 years) from the end of the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

17. INVESTMENTS IN SECURITIES

	Financial assets measured at fair value through profit or loss HK\$'000	Financial assets measured at FVOCI HK\$'000	Financial assets measured at amortised cost HK\$'000	Total HK\$'000
30 June 2020				
Equity securities	91	79,203	–	79,294
Debt securities	127,087	57,319,138	474,238	57,920,463
Total	127,178	57,398,341	474,238	57,999,757
31 December 2019				
Equity securities	193	89,620	–	89,813
Debt Securities	140,494	56,823,653	480,633	57,444,780
Total	140,687	56,913,273	480,633	57,534,593

18. TRANSFER OF FINANCIAL ASSETS

The following were the Group's debt securities classified as financial assets measured at FVOCI as at 30 June 2020 and 31 December 2019 that were transferred to an entity with terms to repurchase these debt securities at agreed dates and prices. As the Group has retained substantially all the risks and rewards relating to these debt securities, the full carrying amount of these debt securities continued to be recognised. The cash received on the transfer was reported as liabilities under "Financial assets sold under repurchase agreements" (see Note 23). The transferred debt securities serve as collateral to secure these liabilities. During the covered periods, the legal title of the debt securities are transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These debt securities are measured at fair value in the condensed consolidated statement of financial position.

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Carrying amount of transferred assets	6,777,694	4,467,402
Carrying amount of associated liabilities (Note 23)	6,292,993	4,253,852

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

19. ADVANCES AND OTHER ACCOUNTS

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Advances to customers		
Bills receivable	836,746	618,617
Trade bills	6,693,539	2,490,856
Other advances to customers	121,472,616	114,969,441
	<u>129,002,901</u>	<u>118,078,914</u>
Interest receivable	815,037	1,052,563
Impairment allowances		
– Stage 1	(473,012)	(382,053)
– Stage 2	(69,807)	(43,710)
– Stage 3	(168,312)	(193,597)
	<u>(711,131)</u>	<u>(619,360)</u>
	<u>129,106,807</u>	<u>118,512,117</u>
Advances to banks	766,677	837,275
Others	7,674,874	6,633,404
	<u>137,548,358</u>	<u>125,982,796</u>

Details of the impaired loans are as follows:

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Gross impaired loans	542,128	397,601
Less: Impairment allowances under stage 3	(168,312)	(193,597)
Net impaired loans	<u>373,816</u>	<u>204,004</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.42%</u>	<u>0.34%</u>
Market value of collateral pledged	<u>350,316</u>	<u>256,491</u>

Details of the non-performing loans are as follows:

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Gross non-performing loans (<i>Note</i>)	535,341	395,458
Less: Impairment allowances under stage 3	(168,180)	(193,558)
Net non-performing loans	<u>367,161</u>	<u>201,900</u>
Gross non-performing loans as a percentage of gross advances to customers	<u>0.41%</u>	<u>0.33%</u>
Market value of collateral pledged	<u>330,250</u>	<u>241,548</u>

Note: Non-performing loans represent advances which are either classified as “substandard”, “doubtful” or “loss” under the Group’s classification of loan quality.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

20. INVESTMENT PROPERTIES

	2020 HK\$'000	2019 HK\$'000
At 1 January	306,610	311,942
Net decrease in fair value recognised in the profit or loss	(7,400)	(4,431)
Exchange adjustments	(1,017)	(901)
At 30 June/31 December	<u>298,193</u>	<u>306,610</u>

All of the Group's property interests held under operating leases to earn rentals and/or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Investment properties owned by the Group were revalued at 30 June 2020 by adopting the direct comparison approach and with reference to the recent transactions for similar premises by Vigers Appraisal and Consulting Limited, independent professional qualified valuer. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

The fair value of investment properties is estimated based on assumptions that there would be no forced sale situation in any manner for these investment properties and the structure of these investment properties were in a reasonable condition at the end of the reporting period.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

One of the key inputs used in valuing the investment properties was the unit sale rate taking into account of time, location and individual factors such as size and levels of building, which ranged from HK\$3,360 to HK\$47,700 (2019: HK\$3,430 to HK\$49,000) per square feet. A decrease in the unit sale rate would result in decrease in fair value measurement of the investment properties by the same percentage decrease and vice versa.

Investment properties are classified as Level 3 under fair value hierarchy as at 30 June 2020 and 31 December 2019. There was no transfer into or out of Level 3 during the periods.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

21. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Right-of-use assets HK\$'000	Equipment HK\$'000	Total HK\$'000
COST					
At 1 January 2020	345,225	112,415	770,250	894,247	2,122,137
Additions	—	—	9,411	41,131	50,542
Disposals	—	—	—	(64,870)	(64,870)
Exchange adjustments	—	(86)	(3)	(3,970)	(4,059)
At 30 June 2020	345,225	112,329	779,658	866,538	2,103,750
ACCUMULATED DEPRECIATION					
At 1 January 2020	98,917	38,595	173,868	686,506	997,886
Depreciation	3,917	1,378	100,098	34,672	140,065
Eliminated on disposals	—	—	—	(64,845)	(64,845)
Exchange adjustments	—	(20)	—	(2,388)	(2,408)
At 30 June 2020	102,834	39,953	273,966	653,945	1,070,698
CARRYING AMOUNTS					
At 30 June 2020	242,391	72,376	505,692	212,593	1,033,052
At 1 January 2020	246,308	73,820	596,382	207,741	1,124,251
COST					
At 1 January 2019	345,225	112,493	181,690	826,902	1,466,310
Additions	—	—	588,562	82,898	671,460
Disposals	—	—	—	(12,106)	(12,106)
Exchange adjustments	—	(78)	(2)	(3,447)	(3,527)
At 31 December 2019	345,225	112,415	770,250	894,247	2,122,137
ACCUMULATED DEPRECIATION					
At 1 January 2019	91,088	35,848	—	636,354	763,290
Depreciation	7,829	2,763	173,869	61,078	245,539
Eliminated on disposals	—	—	—	(9,005)	(9,005)
Exchange adjustments	—	(16)	(1)	(1,921)	(1,938)
At 31 December 2019	98,917	38,595	173,868	686,506	997,886
CARRYING AMOUNTS					
At 31 December 2019	246,308	73,820	596,382	207,741	1,124,251
At 1 January 2019	254,137	76,645	—	190,548	521,330

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

22. INTANGIBLE ASSETS

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Internally developed software and software	753,086	724,593
Club Membership	14,090	14,090
Goodwill	39,606	39,606
	<u>806,782</u>	<u>778,289</u>

23. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Analysed by collateral type:		
Debt securities classified as financial assets at FVOCI	<u>6,292,993</u>	<u>4,253,852</u>

As at 30 June 2020, debt securities which are classified as financial assets at FVOCI with carrying amount of HK\$6,777,694,000 (31 December 2019: HK\$4,467,402,000) were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months (31 December 2019: within 12 months) from the end of the reporting period.

24. DEPOSITS FROM CUSTOMERS

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Demand deposits and current accounts	13,137,195	12,162,143
Savings deposits	45,124,760	42,599,569
Time, call and notice deposits	110,651,178	107,902,936
	<u>168,913,133</u>	<u>162,664,648</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

25. OTHER ACCOUNTS AND ACCRUALS

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Accrued interest	1,314,716	1,489,064
Lease liabilities	453,326	528,967
Others	1,602,986	1,154,656
	<u>3,371,028</u>	<u>3,172,687</u>

26. CERTIFICATES OF DEPOSIT

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Certificates of deposit, measured at amortised cost	<u>77,495</u>	<u>3,749,075</u>

27. LOAN CAPITAL

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Subordinated notes, at amortised cost with fair value hedge adjustments		
US\$204 million fixed rate subordinated note due 2020 (<i>Notes (a) & (c)</i>)	1,615,183	1,588,843
US\$383 million fixed rate subordinated note due 2027 (<i>Notes (b) & (c)</i>)	3,032,793	2,991,069
	<u>4,647,976</u>	<u>4,579,912</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

27. LOAN CAPITAL *(Continued)*

Notes:

- (a) This represented a subordinated note ("the Note 1") in 2017 qualifying as tier 2 capital under Basel II accord with face value of US\$225,000,000 issued on 4 November 2010. The Note 1 will mature on 4 November 2020. If at any time on or after 1 January 2013, the Note 1 no longer fully qualifies as term subordinated debt for inclusion in Category II – Supplementary Capital of the Bank upon changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the Note 1 by serving the "Change in Status Notice" to the noteholders. Upon a "Change in Status Notice" becoming effective, the Note 1 shall thereafter constitute unsubordinated obligations and the rate of interest on the Note 1 shall be reduced from 6% per annum to 5.5% per annum. As "Change in Status Notice" has not been served, the rate of interest on the Note 1 remains at 6% per annum. Pursuant to the exchange offer by the Bank, the Bank settled and exchanged US\$20,976,000 of the Note 1 for tier 2 subordinated note due 2027 (Note (b)). Following the settlement of the exchange offer US\$204,024,000 in aggregate principal amount of the Note 1 remains outstanding.
- (b) This represented a subordinated note qualifying as tier 2 capital under Basel III accord with face value of US\$382,903,000 tier 2 subordinated notes issued on 26 July 2017 ("the Note 2"). The Note 2 are 10-year non-call 5-year fixed rate notes, with a fixed coupon rate of 3.876% per annum payable semi-annually for the first 5 years; the interest rate will be reset on 26 July 2022. This includes US\$22,903,000 of "New Exchange Notes" (being the Note 2 issued pursuant to the exchange offer by the Bank to the holders of its US\$225 million 6.000% subordinated Notes due 2020) and US\$360 million of "New Money Notes". The Note 2 have been listed on the Stock Exchange of Hong Kong under stock code of 05249 on 27 July 2017.
- (c) The subordinated note issued is not secured by any collateral.

Analysis of changes in financing cash flows of loan capital are as follow:

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
At 1 January	4,579,912	4,507,147
Changes from financing cash flows:		
Interest paid on loan capital	(97,695)	(98,181)
	4,482,217	4,408,966
Exchange adjustments	(21,342)	(13,956)
Fair value hedge adjustments	86,431	98,209
Other changes		
Interest expense	92,023	119,934
Other non-cash movements	8,647	(18,794)
Total other changes	100,670	101,140
At 30 June	4,647,976	4,594,359

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

28. DEFERRED TAXATION

For the purpose of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Deferred tax assets	73,675	28,767
Deferred tax liabilities	(55,223)	(145,247)
	<u>18,452</u>	<u>(116,480)</u>

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior reporting period:

	Accelerated tax depreciation HK\$'000	Impairment allowance HK\$'000	Investment properties HK\$'000	Revaluation of FVOCI securities HK\$'000	Remeasurement of retirement benefits HK\$'000	Total HK\$'000
At 1 January 2020	(119,387)	83,731	(18,142)	(58,258)	(4,424)	(116,480)
(Charge) credit to the income statement for the period	(3,151)	(20,900)	(263)	—	—	(24,314)
Credit to other comprehensive income for the period	—	—	—	158,384	—	158,384
Exchange adjustments	—	—	862	—	—	862
At 30 June 2020	<u>(122,538)</u>	<u>62,831</u>	<u>(17,543)</u>	<u>100,126</u>	<u>(4,424)</u>	<u>18,452</u>
At 1 January 2019	(52,141)	61,454	(18,550)	14,397	(4,424)	736
(Charge) credit to income statement for the period	(67,246)	22,277	96	—	—	(44,873)
Charge to other comprehensive income for the period	—	—	—	(72,655)	—	(72,655)
Exchange adjustments	—	—	312	—	—	312
At 31 December 2019	<u>(119,387)</u>	<u>83,731</u>	<u>(18,142)</u>	<u>(58,258)</u>	<u>(4,424)</u>	<u>(116,480)</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

29. ADDITIONAL EQUITY INSTRUMENTS

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
US\$400 million undated non-cumulative subordinated additional tier 1 capital securities	<u>3,111,315</u>	<u>3,111,315</u>

On 15 July 2019, the Bank issued undated non-cumulative subordinated Additional Tier 1 Capital Securities with a face value of US\$400 million (equivalent to HK\$3,115,315,000 net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.70% coupon until the first call date on 15 July 2024. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 3.858% per annum.

The coupon shall be payable semi-annually. The Bank has the right to cancel coupon payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the coupon cancelled shall not be cumulative. However, the Bank is stopped from declaring dividend to its ordinary shareholders unless the next scheduled coupon payment is paid.

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed or agreed with the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA, the Bank would become non-viable if there is no written off of the principal.

During the period, a distribution of US\$11,400,000 (2019: nil) (equivalent to HK\$88,765,000 (2019: nil)) was paid to the securities holders.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

30. MATURITY PROFILES

The maturity analysis of financial assets and liabilities shown on the condensed consolidated statement of financial position are presented based on the Group's remaining contractual maturity information provided to and reviewed by management, is shown below:

	Repayable on demand HK\$'000	Repayable within 1 month HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 30 June 2020								
Assets								
Cash and short-term funds	4,518,446	12,743,437	229,767	128,998	-	-	-	17,620,648
Placements with banks	-	-	1,357,617	129,000	-	-	-	1,486,617
Derivative financial instruments	60,361	214,411	54,718	166,325	214,629	27,018	-	737,462
Financial assets at fair value through profit or loss	-	-	-	-	12,893	114,195	90	127,178
Financial assets measured at FVOCI	-	10,316,174	6,244,025	2,782,764	22,711,695	15,250,688	92,995	57,398,341
Financial assets measured at amortised cost	-	-	72,816	111,665	2,000	287,757	-	474,238
Advances to customers	1,814,007	4,176,854	12,735,991	32,278,388	54,614,141	23,194,637	188,883	129,002,901
Advances to banks	-	766,677	-	-	-	-	-	766,677
Other financial assets	2,661,228	469,957	269,585	2,614,206	-	-	1,763,804	7,778,780
Total financial assets	9,054,042	28,687,510	20,964,519	38,211,346	77,555,358	38,874,295	2,045,772	215,392,842
Liabilities								
Deposits and balances of banks	1,126,381	736,302	2,556,199	2,703,123	-	-	-	7,122,005
Financial assets sold under repurchase agreements	219,060	117,786	5,956,147	-	-	-	-	6,292,993
Deposits from customers	63,239,306	47,437,058	34,847,001	13,628,425	9,158,928	602,415	-	168,913,133
Certificates of deposit	-	-	77,495	-	-	-	-	77,495
Derivative financial instruments	61,918	206,014	39,804	158,178	1,186,856	1,724,267	-	3,377,037
Loan capital	-	-	-	1,615,183	-	3,032,793	-	4,647,976
Lease liabilities	-	14,481	28,936	124,257	285,652	-	-	453,326
Other financial liabilities	1,084,913	356,381	385,095	296,341	66,169	5,103	723,700	2,917,702
Total financial liabilities	65,731,578	48,868,022	43,890,677	18,525,507	10,697,605	5,364,578	723,700	193,801,667
Net position								
- Total financial assets and liabilities	(56,677,536)	(20,180,512)	(22,926,158)	19,685,839	66,857,753	33,509,717	1,322,072	21,591,175
Of which debt securities included in:								
Financial assets at fair value through profit or loss	-	-	-	-	12,892	114,195	-	127,087
Financial assets at FVOCI	-	10,316,174	6,244,025	2,782,764	22,711,695	15,250,688	13,792	57,319,138
Financial assets at amortised cost	-	-	72,816	111,665	2,000	287,757	-	474,238
	-	10,316,174	6,316,841	2,894,429	22,726,587	15,652,640	13,792	57,920,463

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

30. MATURITY PROFILES (Continued)

	Repayable on demand HK\$'000	Repayable within 1 month HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31 December 2019								
Assets								
Cash and short-term funds	5,519,417	9,756,399	2,922,293	2,206,396	-	-	-	20,404,505
Placements with banks	-	-	4,065,463	1,459,586	-	-	-	5,525,049
Derivative financial instruments	-	315,004	172,373	101,545	106,805	10,203	-	705,930
Financial assets at fair value through profit or loss	-	-	-	-	24,565	115,929	193	140,687
Financial assets measured at FVOCI	-	9,943,507	3,044,284	3,511,470	24,139,198	16,185,194	89,620	56,913,273
Financial assets measured at amortised cost	-	-	72,710	47,194	69,945	290,784	-	480,633
Advances to customers	1,313,714	7,429,319	9,042,575	27,468,370	50,388,823	22,177,380	258,733	118,078,914
Advances to banks	-	837,275	-	-	-	-	-	837,275
Other financial assets	3,430,962	486,225	524,080	1,920,482	72,859	6,759	625,240	7,066,607
Total financial assets	10,264,093	28,767,729	19,843,778	36,715,043	74,802,195	38,786,249	973,786	210,152,873
Liabilities								
Deposits and balances of banks	13,144	2,816,261	1,587,340	2,533,176	-	-	-	6,949,921
Financial assets sold under repurchase agreements	-	1,096,010	3,157,842	-	-	-	-	4,253,852
Deposits from customers	57,540,760	45,547,377	38,499,848	13,570,300	7,506,363	-	-	162,664,648
Derivative financial instruments	-	340,334	139,939	110,008	591,837	720,833	-	1,902,951
Certificates of deposit	-	-	2,384,062	1,365,013	-	-	-	3,749,075
Loan capital	-	-	-	1,588,843	-	2,991,069	-	4,579,912
Lease liabilities	-	13,976	28,293	126,708	359,960	-	-	528,937
Other financial liabilities	560,370	438,684	450,079	320,648	35,364	966	837,639	2,643,750
Total financial liabilities	58,114,274	50,252,642	46,247,403	19,614,696	8,493,524	3,712,868	837,639	187,273,046
Net position – total financial assets and liabilities	(47,850,181)	(21,484,913)	(26,403,625)	17,100,347	66,308,671	35,073,381	136,147	22,879,827
Of which debt securities included in:								
FVOCI	-	9,943,507	3,044,284	3,511,470	24,139,198	16,185,194	-	56,823,653
Amortised cost	-	-	72,710	47,194	69,945	290,784	-	480,633
	-	9,943,507	3,116,994	3,558,664	24,209,143	16,475,978	-	57,304,286

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

31. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following material transactions with related parties:

	Interest and commission income Six months ended 30 June		Interest, rental and other operating expenses Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Ultimate holding company	5	10	12,248	6,471
Intermediate holding company	2,961	4,768	4,767	4,313
Fellow subsidiaries	23,029	18,335	56,324	36,749
Associates	34,696	23,664	13,116	11,890
Key management personnel (Note 1)	313	475	851	1,634

During the period, the Group had net trading income with intermediate holding company and fellow subsidiary of HK\$1,019,000 (2019: Net trading income HK\$2,961,000).

At the end of the reporting period, the Group had the following material outstanding balances with related parties:

	Amounts due from related parties		Amounts due to related parties	
	30 June 2020 HK\$'000	31 December 2019 HK\$'000	30 June 2020 HK\$'000	31 December 2019 HK\$'000 (Restated - Note 2)
Ultimate holding company	–	–	1,875,130	1,462,124
Intermediate holding company	200,000	200,000	1,034,535	278,428
Fellow subsidiaries	1,164,248	1,299,499	4,215,559	5,654,924
Associates	–	–	371,235	272,657
Key management personnel (Note 1)	40,313	43,490	180,837	174,565

The above outstanding balances bear interest at rates similar to those made available to non-related parties. A portion of the loans to related parties are secured with properties, securities and fixed deposits.

Note 1: Includes directors, senior management and key personnel of the Group and its holding companies, their close family members and companies controlled or significantly influenced by them.

Note 2: Certain comparative figures have been restated to conform to the current period's presentation.

31. RELATED PARTY TRANSACTIONS *(Continued)*

COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors, senior management and key personnel during the period was as follows:

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Short-term benefits	100,099	80,965
Post employment benefits	6,210	5,123
Share-based payment	2,128	—
	108,437	86,088

The remuneration of directors, senior management and key personnel is reviewed by the Remuneration Committee having regard to the performance of individuals and market trends.

32. ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019 except the measurement of expected credit loss allowance, which resulted in changes in critical accounting judgement.

CRITICAL JUDGEMENTS IN KEY ASSUMPTIONS USED IN THE EXPECTED CREDIT LOSS ("ECL") CALCULATION

Uncertainty of economic environment and sensitivity analysis in ECL estimates

According to the HKFRS 9, ECL is expected to be assessed over a range of economic scenarios and is an unbiased and probability-weighted amount. As such, the Group developed three macroeconomic scenarios, namely Good, Base and Bad scenarios. The weighting of each scenario is determined by management judgement with consideration of macroeconomic environment of Hong Kong and Mainland China and the trend of global economy. The ECL for each scenario is calculated and the overall weighted-average ECL is derived by applying the weighting to the ECL of each corresponding scenario.

The Group reviews the forward-looking economic variables in the ECL model regularly to reflect the changes of future economic outlook. The outbreak of COVID-19 in 2020 has caused significant changes in global economic environment and customer behaviours. The Hong Kong GDP Year-on-Year growth, being one of the most significant factors in probability of default ("PD") estimation, recorded a sharp negative growth of 9% in the first half of 2020 as compared to -3.0% in the last quarter of 2019. The data from the Hong Kong Census and Statistics Department showed that the forecasted GDP growth for 2020 lies between -6.0% and -8.0%.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

32. ESTIMATES *(Continued)*

CRITICAL JUDGEMENTS IN KEY ASSUMPTIONS USED IN THE EXPECTED CREDIT LOSS ("ECL") CALCULATION *(Continued)*

Uncertainty of economic environment and sensitivity analysis in ECL estimates (Continued)

As a result, the Group has adjusted the probability weighting assignments in the 3 scenarios to reflect the changes of future economic outlook and has updated the respective macroeconomic variables in the ECL model. The key assumptions used for the ECL estimates are set out below:

	Scenario	30 June 2020	31 December 2019
Hong Kong GDP YoY growth %	Base	(1.32%)	1.20%
	Good	2.87%	6.40%
	Bad	(8.00%)	(5.31%)

In the table above, the Hong Kong GDP growth % represents a 1-year forecast in light of the ongoing uncertainties in the macroeconomic environment.

	Scenario	30 June 2020	31 December 2019
Probability weighting	Base	75%	80%
	Good	5%	10%
	Bad	20%	10%

Other forward-looking considerations not otherwise incorporated with the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors.

Adjustments on model assumptions

The recent outbreak of the COVID-19 is taking toll in Hong Kong and Mainland China. Business activities of many sectors have been rapidly slowing down. The government has introduced extraordinary support measures to alleviate the financial and economic impacts of COVID-19. More importantly, the recovery path is largely dependent on the COVID-19 developments and their subsequent impacts to the economic activities. These exceptional changes might not be fully captured by the existing ECL model as the model was built using historical data and past years economic cycles.

For 30 June 2020, the Group has revisited the inputs of existing model parameters and the corresponding outputs so as to identify the key model limitations. As a result of this review, the Group segregated the wholesale portfolios in the corporate segment into more sub-portfolios and adjusted the respective sub-portfolios probability of default using management judgement.

32. ESTIMATES *(Continued)*

CRITICAL JUDGEMENTS IN KEY ASSUMPTIONS USED IN THE EXPECTED CREDIT LOSS ("ECL") CALCULATION *(Continued)*

Adjustments on model assumptions (Continued)

As at 30 June 2020, the net amount resulted from the above adjustments represents an approximate decrease of ECL of 0.35% of total balance of financial assets.

In addition, as these ECL estimates involve a high level of management judgement, the Group has also performed the following additional assessments to ascertain the changes in the existing ECL model as part of its overall ECL governance:

- Performed sensitivity analysis – If a 100% probability weighting was applied onto the Base scenario, the ECL result for Stage 1 and Stage 2 would be decreased by 4.8%. The Base scenario refers to the economy that will recover from the negative Hong Kong GDP YoY growth % in the first quarter of 2021;
- Performed thematic reviews – Management has performed thematic reviews for some selected portfolios to assess whether there is a significant change in credit risk for the obligors in these portfolios; and
- Compared to another referencing model - Management has compared some data points to the ones from another referencing model.

Details of net impairment losses on financial assets are disclosed in note 11.

33. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The Bank successfully issued US\$250 million 5.5% Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the "Securities") on 27 July 2020, which was completed under the US\$2 billion Medium Term Note and Perpetual Capital Securities Programme of the Bank. On 29 July 2020, the Bank entered into a subscription agreement to issue an additional US\$50 million 5.5% Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities which are consolidated and form a single series with the US\$250 million Additional Tier 1 Capital Securities issued successfully on 27 July 2020. The Securities are qualified as Basel III-compliant additional tier 1 capital. The proceeds from the offering will enable the Bank to strengthen its capital base, driving the implementation of its strategic plans for the Bank.

34. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform to current period's presentation.

SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2020

1. ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS

The Group's gross advances to customers (including advances booked in branches outside Hong Kong and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans or business activities of the borrowers as follows:

	30 June 2020				
	Gross loans and advances HK\$'000	Impairment allowances stage 1 & stage 2 HK\$'000	Impairment allowances stage 3 HK\$'000	Loans and advances secured by collateral HK\$'000 (Note 1)	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	5,724,039	8,680	—	3,159,383	—
– Property investment	10,843,032	28,779	298	8,692,639	21,059
– Financial concerns	7,066,883	9,041	—	404,945	—
– Stockbrokers	1,939,054	2,090	—	905,317	—
– Wholesale and retail trade	1,872,864	21,055	48,989	1,657,842	169,718
– Manufacturing	650,346	3,297	5,183	433,925	5,179
– Transport and transport equipment	1,341,525	25,764	20	781,817	1,891
– Recreational activities	517	—	—	517	—
– Information technology	1,776,347	18,952	—	46,791	—
– Others (Note 2)	5,833,550	18,404	1,829	4,631,353	1,718
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	469,974	393	150	469,988	1,513
– Loans for the purchase of other residential properties	9,346,888	8,051	356	9,346,953	21,322
– Credit card advances	59,268	689	509	—	1,892
– Others (Note 3)	4,364,833	8,646	1,355	3,631,792	10,475
	51,289,120	153,841	58,689	34,163,262	234,767
Trade finance	10,041,333	44,685	78,889	830,784	167,276
Loans for use outside Hong Kong	67,672,448	344,293	30,734	16,765,741	140,085
	<u>129,002,901</u>	<u>542,819</u>	<u>168,312</u>	<u>51,759,787</u>	<u>542,128</u>

Notes: 1. Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.

2. Major items included in "Others" are for hotels, catering, margin lending and other business purposes.

3. Major items mainly included loans to professionals and other individuals for various private purposes.

1. ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS (Continued)

	31 December 2019				
	Gross loans and advances HK\$'000	Impairment allowances stage 1 & stage 2 HK\$'000	Impairment allowances stage 3 HK\$'000	Loans and advances secured by collateral HK\$'000 (Note 1)	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	6,375,480	7,505	—	3,184,337	—
– Property investment	10,513,477	27,815	47	7,908,837	74
– Financial concerns	8,452,285	7,887	—	558,586	—
– Stockbrokers	2,656,227	2,209	—	1,512,703	—
– Wholesale and retail trade	1,823,656	9,168	13,383	1,633,247	29,180
– Manufacturing	658,669	2,398	2,409	454,761	20,030
– Transport and transport equipment	1,468,693	22,383	—	899,062	277
– Recreational activities	551	1	—	551	—
– Information technology	1,553,620	7,086	645	323,392	13,000
– Others (Note 2)	5,866,252	13,920	340	4,780,980	340
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	486,484	365	91	486,484	1,320
– Loans for the purchase of other residential properties	8,852,812	6,544	55	8,850,990	10,538
– Credit card advances	70,126	1,026	284	—	407
– Others (Note 3)	4,031,851	6,795	1,577	3,559,784	10,434
	52,810,183	115,102	18,831	34,153,714	85,600
Trade finance	5,295,352	24,018	72,453	1,137,965	203,709
Loans for use outside Hong Kong	59,973,379	286,643	102,313	11,958,106	108,292
	<u>118,078,914</u>	<u>425,763</u>	<u>193,597</u>	<u>47,249,785</u>	<u>397,601</u>

Notes: 1. Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.

2. Major items included in "Others" are for hotels, catering, margin lending and other business purposes.

3. Major items mainly included loans to professionals and other individuals for various private purposes.

SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2020

1. ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS *(Continued)*

The Group's advances to customers overdue for over three months as at 30 June 2020 and 31 December 2019, and new impairment allowances and advances written-off during the six months ended 30 June 2020 and 2019 in respect of industry sectors which constitute not less than 10% of gross advances to customers are analysed as follows:

	2020		
	Advances overdue for over three months as at 30 June HK\$'000	New impairment allowances during the six months ended 30 June HK\$'000	Advances written-off during six months ended 30 June HK\$'000
Loans for use outside Hong Kong	5,369	45	97,488

	2019		
	Advances overdue for over three months as at 31 December HK\$'000	New impairment allowances during the six months ended 30 June HK\$'000	Advances written-off during six months ended 30 June HK\$'000
Loans for use outside Hong Kong	102,193	29,876	–

2. ADVANCES TO CUSTOMERS – BY GEOGRAPHICAL AREAS

The Group's gross advances to customers by countries or geographical areas after taking into account any risk transfers are as follows:

	30 June 2020				
	Total advances	Advances overdue for over three months	Impaired advances	Impairment allowances stage 3	Impairment allowances stage 1 & stage 2
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	90,086,685	150,803	541,056	168,284	387,449
Mainland China	35,356,810	—	—	—	150,773
Macau	3,048,381	—	1,072	28	4,476
Others	511,025	—	—	—	121
	<u>129,002,901</u>	<u>150,803</u>	<u>542,128</u>	<u>168,312</u>	<u>542,819</u>

	31 December 2019				
	Total advances	Advances overdue for over three months	Impaired advances	Impairment allowances stage 3	Impairment allowances stage 1 & stage 2
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	88,014,170	126,495	295,836	92,913	208,908
Mainland China	26,252,199	100,656	100,656	100,656	209,057
Macau	3,286,487	—	1,109	28	3,788
Others	526,058	—	—	—	4,010
	<u>118,078,914</u>	<u>227,151</u>	<u>397,601</u>	<u>193,597</u>	<u>425,763</u>

SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2020

3. INTERNATIONAL CLAIMS

The Group's international claims by countries or geographical areas which constitute 10% or more of the relevant disclosure items after taking into account any risk transfers are as follows:

	At 30 June 2020				
	Non-bank private sector				
	Banks	Official	Non-bank	Non-	Total
	HK\$'000	sector	financial	financial	
		HK\$'000	institutions	private	HK\$'000
			HK\$'000	sector	HK\$'000
Offshore centres	4,332,663	38,486	11,768,785	19,104,730	35,244,664
of which: Hong Kong	4,332,663	38,082	8,098,662	8,358,338	20,827,745
Developing Asia Pacific	9,714,630	17,115	19,740,689	7,209,152	36,681,586
of which: Mainland China	8,858,075	16,958	19,740,689	7,198,823	35,814,545
Developed countries	5,489,183	8,610,288	155,687	502,849	14,758,007
of which: United States	1,468,187	8,604,287	—	5,217	10,077,691

	At 31 December 2019				
	Non-bank private sector				
	Banks	Official	Non-bank	Non-	Total
	HK\$'000	sector	financial	financial	
		HK\$'000	institutions	private	HK\$'000
			HK\$'000	sector	HK\$'000
Offshore centres	2,294,072	9,564	11,328,006	18,848,959	32,480,601
of which: Hong Kong	2,126,197	9,124	8,269,598	9,742,703	20,147,622
Developing Asia Pacific	7,395,527	39,356	18,678,570	7,036,910	33,150,363
of which: Mainland China	5,863,883	39,190	18,678,570	7,027,151	31,608,794
Developed countries	7,508,201	18,146	164,722	6,071,107	13,762,176
of which: United States	1,561,059	10,859	—	5,554,553	7,126,741

4. OVERDUE AND RESCHEDULED ASSETS

	30 June 2020		31 December 2019	
	Gross amount of advances HK\$'000	Percentage to total advances %	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for				
– 6 months or less but over 3 months	14,809	0.0	3,321	0.0
– 1 year or less but over 6 months	39,204	0.0	35,841	0.0
– Over 1 year	72,166	0.1	162,406	0.1
Trade bills overdue for				
– 6 months or less but over 3 months	—	—	—	—
– 1 year or less but over 6 months	—	—	959	0.0
– Over 1 year	24,624	0.0	24,624	0.0
Total overdue advances	<u>150,803</u>	<u>0.1</u>	<u>227,151</u>	<u>0.1</u>
Rescheduled advances				
– 3 months or less	34,016	0.0	—	—
– Over 3 months	676	0.0	453	0.0
Total rescheduled advances	<u>34,692</u>	<u>0.0</u>	<u>453</u>	<u>0.0</u>
Impairment allowances under stage 3 made in respect of overdue loans and advances	<u>91,804</u>		<u>184,962</u>	
Covered portion of overdue loans and advances	62,570		43,827	
Uncovered portion of overdue loans and advances	88,233		183,324	
	<u>150,803</u>		<u>227,151</u>	
Market value of collateral held against covered portion of overdue loans and advances	<u>69,985</u>		<u>58,386</u>	

SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2020

4. OVERDUE AND RESCHEDULED ASSETS *(Continued)*

There were no advances to banks which were overdue for over three months as at 30 June 2020 and 31 December 2019, nor were there any rescheduled advances to banks.

There are no overdue debt securities as at 30 June 2020 and 31 December 2019.

Repossessed assets held by the Group as at 30 June 2020 was HK\$2,800,000 (31 December 2019: HK\$Nil).

5. MAINLAND ACTIVITIES EXPOSURES

The table below summaries the non-bank Mainland China exposures of the Bank's Hong Kong banking operations and the Bank's Mainland branches and sub-branches categorized by types of counterparties:

Type by counterparties	30 June 2020		Total HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	
1. Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	33,385,052	3,850,719	37,235,771
2. Local government, local government-owned entities and their subsidiaries and JVs	8,388,680	1,001,655	9,390,335
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	30,329,728	8,524,131	38,853,859
4. Other entities of central government not reported in item 1 above	6,430,839	2,038,416	8,469,255
5. Other entities of local government not reported in item 2 above	814,378	872,873	1,687,251
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	13,467,960	1,442,190	14,910,150
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	6,833,962	1,138,930	7,972,892
Total	99,650,599	18,868,914	118,519,513
Total assets after provision <i>(Note)</i>	216,687,000		
On-balance sheet exposures as percentage of total assets <i>(Note)</i>	45.99%		

The categories of non-bank counterparties and type of direct exposures are disclosed in accordance with Banking (Disclosure) Rules with reference to the Return of Mainland Activities of the HKMA.

Note: Include total assets after provisions of the Bank's Hong Kong banking operations and the Bank's Mainland branches and sub-branches.

5. MAINLAND ACTIVITIES EXPOSURES *(Continued)*

Type by counterparties	31 December 2019		Total HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	
1. Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	33,890,529	3,949,208	37,839,737
2. Local government, local government-owned entities and their subsidiaries and JVs	9,140,391	1,046,015	10,186,406
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	25,543,579	8,138,139	33,681,718
4. Other entities of central government not reported in item 1 above	5,235,277	2,869,489	8,104,766
5. Other entities of local government not reported in item 2 above	794,375	277,569	1,071,944
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	11,587,871	1,153,059	12,740,930
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	5,962,112	1,267,062	7,229,174
Total	<u>92,154,134</u>	<u>18,700,541</u>	<u>110,854,675</u>
Total assets after provision <i>(Note)</i>	<u>212,039,042</u>		
On-balance sheet exposures as percentage of total assets <i>(Note)</i>	<u>43.46%</u>		

The categories of non-bank counterparties and type of direct exposures are disclosed in accordance with Banking (Disclosure) Rules with reference to the Return of Mainland Activities of the HKMA.

Note: Include total assets after provisions of the Bank's Hong Kong banking operations and the Bank's Mainland branches and sub-branches.

SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2020

6. CURRENCY RISK

The Group's foreign currency exposures arising from trading, non-trading and structural position which constitute 10% or more of the total net position in all foreign currencies are as follows:

	30 June 2020		
	USD	RMB	Total
Equivalent in thousand of HK\$			
Spot assets	83,769,018	50,662,879	134,431,897
Spot liabilities	(58,276,313)	(53,871,514)	(112,147,827)
Forward purchases	67,492,808	10,643,600	78,136,408
Forward sales	(90,720,973)	(6,523,848)	(97,244,821)
Net long position	2,264,540	911,117	3,175,657
	MOP	USD	RMB
Net structural position	48,544	220,587	2,957,310
			Total
			3,226,441

	31 December 2019		
	USD	RMB	Total
Equivalent in thousand of HK\$			
Spot assets	64,243,593	46,798,123	111,041,716
Spot liabilities	(43,131,770)	(49,542,008)	(92,673,778)
Forward purchases	75,909,117	13,973,283	89,882,400
Forward sales	(96,320,126)	(10,396,881)	(106,717,007)
Net long position	700,814	832,517	1,533,331
	MOP	USD	RMB
Net structural position	48,544	221,623	3,019,680
			Total
			3,289,847

7. CONTINGENT LIABILITIES AND COMMITMENTS

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Contingent liabilities and commitments		
– contractual amounts		
Direct credit substitutes	463,701	469,730
Trade-related contingencies	3,172,243	6,231,424
Forward asset purchases	73,628	54,650
Undrawn formal standby facilities, credit lines and other commitments		
Which are unconditionally cancellable without prior notice	31,742,261	29,560,421
With an original maturity of one year and under	3,634,516	3,469,420
With an original maturity of over one year	6,180,216	6,427,993
Lease commitments	56	1,812
	45,266,621	46,215,450

The credit risk-weighted amount of contingent liabilities and commitments is HK\$4,599,534,000 (31 December 2019: HK\$4,727,613,000).

Most of contingent liabilities and commitments are denominated in Hong Kong dollars.

The replacement cost and credit risk-weighted amounts of derivatives exposures are as follows:

	30 June 2020			31 December 2019		
	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk-weighted amount HK\$'000	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk-weighted amount HK\$'000
Exchange rate contracts	167,927,024	503,779	738,274	189,577,148	632,424	1,043,312
Interest rate contracts	58,435,887	233,683	177,941	79,682,016	73,506	127,712
		737,462	916,215		705,930	1,171,024

The above amounts do not take into account the effects of bilateral netting arrangements.

SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2020

7. CONTINGENT LIABILITIES AND COMMITMENTS *(Continued)*

Replacement cost is the cost which would be incurred by the Group if it was required to enter into another contract to replace the existing transaction or existing contract with another counterparty with substantially the same economic consequences for the Group and is calculated by marking-to-market the existing transaction or existing contract. If the resultant value is positive for the Group, the replacement cost shall be the resultant value of the existing transaction or existing contract. If the resultant value is negative for the Group, the replacement cost shall be zero. Replacement cost is a close approximation of the credit risk for these contracts at the end of the reporting period.

The credit risk-weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules and the guidelines issued by the HKMA.

8. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIO

	30 June 2020 %	31 December 2019 %
Total capital ratio	16.40	17.51
Tier 1 capital ratio	13.61	14.32
Common Equity Tier 1 ("CET 1") capital ratio	11.66	12.28

	30 June 2020 %	31 December 2019 %
Capital buffers (as a percentage of risk-weighted assets)		
Capital conservation buffer ratio	2.50	2.00
Countercyclical capital buffer ratio	0.69	1.41
	<u>3.19</u>	<u>3.41</u>

	30 June 2020 %	31 December 2019 %
Leverage ratio	9.57	9.90

8. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIO *(Continued)*

	Six months ended 30 June 2020 %	Six months ended 30 June 2019 %
Average liquidity maintenance ratio ("LMR") for the period	45.19	46.00

Capital adequacy ratios are compiled in accordance with the Banking (Capital) Rules under Hong Kong Banking Ordinance for the implementation of the "Basel III" capital accord, which became effective on 1 January 2013. In accordance with the Banking (Capital) Rules, the Bank has adopted the "standardised approach" for the calculation of the risk-weighted assets for credit risk, "standardised (market risk) approach" for the calculation of market risk and "basic indicator approach" for the calculation of operational risk. The capital adequacy ratio is consolidated, under the Banking (Capital) Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

Leverage ratio is disclosed in accordance with the Banking (Disclosure) Rules under Hong Kong Banking Ordinance. The leverage ratio is consolidated with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

9. OTHER FINANCIAL INFORMATION

The Bank has set up a "Regulatory Disclosure" section on its website to house all of information relating to the disclosure of regulatory capital to comply with Banking (Disclosure) Rules.

The "Regulatory Disclosure" will be available on the Bank's website: www.chbank.com in the "Regulatory Disclosure" section in accordance with the Banking (Disclosure) Rules.

SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2020

10. BASIS OF CONSOLIDATION

This interim financial information covers the condensed consolidated financial information of the Bank and all its subsidiaries and includes the attributable share of interest in the Group's associates.

The capital adequacy ratios of the Group are prepared according to the basis of consolidation determined by the HKMA for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank, all its subsidiaries and the attributable share of interests in the Group's associates whereas the latter includes the Bank and only some of the Group's subsidiaries which mainly conduct banking business or other businesses incidental to banking business. The LMR is prepared on an unconsolidated basis which includes the Bank only.

There are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but where the method of consolidation differs at 30 June 2020.

There are no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation at 30 June 2020.

Subsidiaries that are included within the accounting scope of consolidation but are not included within the regulatory scope of consolidation are as follows:

Name of company	Principal activities	Total assets		Total equity	
		30 June 2020	31 December 2019	30 June 2020	31 December 2019
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Chong Hing (Nominees) Limited	Provision of nominee services	100	100	100	100
Chong Hing Securities Limited	Stockbroking	920,065	740,570	526,435	491,115
Chong Hing Commodities and Futures Limited	Investment holding and commodities and futures broking	67,933	70,160	65,979	66,954
Chong Hing Insurance Company Limited	Insurance underwriting	419,921	427,661	281,806	276,560
Chong Hing Insurance Brokers Limited	Insurance broking	3,176	4,000	3,171	3,890
Chong Hing (Management) Limited	Provision of management services	91	98	82	85

11. RISK MANAGEMENT

The Group has established policies, procedures, and controls for measuring, monitoring and controlling risks arising from the banking and related financial services business. These policies, procedures, and controls are implemented by various committees, divisions and departments of the Group and are regularly reviewed by the Board. The internal auditors also play an important role in the risk management process by performing regular, as well as sporadic compliance audits.

The management of assets and liabilities of the Group is conducted under the guidance of the Asset and Liability Management Committee (the "ALCO"). The ALCO holds meetings every two weeks, and more frequent meetings when required, to review and direct the relevant policies, the business strategies and to monitor the bank-wide positions. The day-to-day management of the credit, operational, liquidity, foreign exchange, interest rate and other market risks, and the compliance with the ALCO and the Risk Management Committee (the "RMC") policies are monitored by the Finance & Capital Management Division, the Financial Markets Division, the Credit Risk Management Division, the Operational & IT Risk Management Department, Compliance Division and the Market Risk Management Department with the assistance of various qualitative and quantitative analyses. The Board level Risk Committee (RC) exercises further oversight of the Bank's risk management.

Complementing the ALCO in the management of assets and liabilities, the RMC also oversees the implementation of the policies and procedures established for managing the Group's credit, strategic, operational, legal, and reputation risks and compliance requirements.

(I) CAPITAL MANAGEMENT

The Group has adopted a policy of maintaining a strong capital base to support the development of the Group's business and to ensure compliance with the statutory capital adequacy ratio requirement.

Capital is allocated to the various activities of the Group depending on the risk taken by each business division. The Group's capital adequacy ratio has remained well above the minimum as stipulated in the Banking (Capital) Rules.

(II) CREDIT RISK

Credit risk is the risk that a customer or counterparty may fail to meet a commitment when it falls due.

The Group's lending policy sets out in details the credit approval and monitoring mechanism, the exposure classifications system and provisioning policy, which is established in accordance with the requirements and provisions of the Hong Kong Banking Ordinance, the guidelines issued by the HKMA and other regulatory bodies.

Day-to-day credit management is performed by the Credit Risk Management Division with reference to credit policy information, the creditworthiness of a counterparty, the exposure concentration risk and the collateral pledged by a counterparty. Credit decisions are made by individual approvers with the delegated credit authority.

11. RISK MANAGEMENT *(Continued)*

(III) LIQUIDITY RISK

Liquidity risk is the risk that the Group may not be able to meet obligations as they fall due, without incurring unacceptable losses.

The Group adopts conservative risk appetite in liquidity risk management and maintains adequate liquid assets to meet its normal business obligations as well as to withstand a prolonged period of liquidity stress in accordance with the requirements set out in the Supervisory Policy Manual LM-2 "Sound Systems and Controls for Liquidity Risk Management" ("SPM LM-2") revised by the HKMA in November 2016. The ALCO, established and delegated by the EXCO, has reviewed and approved liquidity risk management policy which specifies a set of liquidity risk metrics and risk control limits for effective liquidity risk management. The key liquidity metrics, e.g. liquidity maintenance ratio, core funding ratio ("CFR"), loan-to-deposit ratio, maturity profile of assets and liabilities, and inter-bank transactions are under ALCO's ongoing and periodic review.

The Group has sufficiently maintained the LMR and CFR well above the minimum as stipulated by the Banking (Liquidity) Rules.

(IV) MARKET RISK

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices.

Market risk arising from the trading book is at an acceptable level, as the Group maintains controllable positions of financial instruments leading to foreign exchange and interest rate exposures. The market risk positions are managed using risk limits approved by the Group. Daily risk monitoring is carried out independently by Market Risk Management Department, which ensures all dealing activities are conducted in a proper manner and within approved limits. The Group's exposures are periodically reviewed by the Board, RMC and senior management. Besides, structural foreign exchange exposure is to be detailed under (v) foreign exchange risk.

(V) FOREIGN EXCHANGE RISK

The Group has maintained a controllable level of foreign exchange risk for both trading and customer order fulfillment. Structural foreign exchange exposure arising from investments in branches outside Hong Kong and subsidiaries is accounted for in the reserves account. Day-to-day foreign exchange management is managed by the Financial Markets Division within approved limits.

11. RISK MANAGEMENT *(Continued)*

(VI) INTEREST RATE RISK

Interest rate risk is referred to the risk to the Bank's financial condition resulting from adverse movements in interest rates. This consists of gap risk, basis risk and option risk. Interest margins may increase as a result of such changes in favour of the Bank but also result negative impacts in the event that unexpected or adverse movement arises. Interest rate risk comprises those originating from both trading and non-trading portfolio, and the Group's interest rate risk exposure is mainly contributed by non-trading portfolio. In non-trading portfolio, the Group manages its interest rate risk in banking book ("IRRBB") within the IRRBB limits approved by ALCO and under monitoring of Market Risk Management Department independently, which regularly report to both ALCO and RMC for senior management oversight. In trading portfolio, specific limits are approved by RMC on interest rate sensitivities (also known as DV01) and stop loss are being enforced on daily basis subject to independent monitoring by Market Risk Management Department.

The Group maintains manageable interest rate positions on its trading book, in addition to certain interest rate contracts entered into for the management of the Group's own risk with holding securities that are classified for trading purpose.

The Group manages its IRRBB exposures using economic value as well as earnings based measures.

The economic value is measured from present values of its expected net cash flows of assets, liabilities and off balance sheet positions held with the Bank, discounted to reflect market rates. Thereby the Group measures the change in Economic Value of Equity (" Δ EVE") as the maximum decrease of the banking book economic value under the six standard scenarios defined by the HKMA's Supervisory Policy Manual.

Earnings-based measures the impact of changes in interest rates on accruing or reported earnings. Reduced earnings or outright losses can threaten the financial stability by undermining its capital adequacy and by reducing market confidence in it. The Group measures the change in net interest income as the maximum reduction in net interest income over a period of 12 months.

(VII) OPERATIONAL AND LEGAL RISK

Operational risk is the risk of unexpected losses attributable to human error, systems failures, frauds, or inadequate internal controls and procedures. Identification, assessment, mitigation, monitoring and reporting of operational risk are to be done for departments and processes, with escalation and reporting mechanism designated for major operational risk incidents.

Executive directors, division heads, department heads, in-house legal counsels, and internal auditors collaborate to manage operational and legal risks through proper human resources policies, delegation of authorities, segregation of duties, and timely and accurate management information. Senior management and the Audit Committee are accountable to the Board for maintaining a strong and disciplined control environment to provide reasonable assurance that the operational and legal risks are prudently managed.

A comprehensive contingency plan is available to ensure that the Bank's key business functions continue and normal operations are restored effectively and efficiently in the event of business interruption.

11. RISK MANAGEMENT *(Continued)*

(VIII) REPUTATION RISK

Reputation risk is the risk that the Group's reputation is damaged by one or more than one reputation event that results in negative publicity about the Group's business practices, conduct or financial condition.

Reputation risk is managed by every member of staff ensuring proper and adequate communications and public relation efforts to foster the reputation of the Group. A reputation risk management mechanism guided by the senior management including executive directors has been established to manage including, without limitation, media exposure, handle customers' and other stakeholders' complaints and suggestions, and to ensure that business activities and agents and/or bodies acting on the Group's behalf do not jeopardise its reputation.

