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2020 INTERIM RESULTS

RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

HIGHLIGHTS

- Operating profit before impairment allowances amounted to HK\$1,167 million, representing an improvement of 0.09% from the corresponding period in 2019.
- Operating profit after impairment allowances down 18.77% from the corresponding period in 2019 to HK\$869 million.
- Profit attributable to equity owners amounted to HK\$715 million, representing a decrease of 20.96% from the corresponding period in 2019.
- Return on shareholders' equity of 5.85% (7.96% in 2019) and earnings per share of HK\$0.64 (HK\$0.85 in 2019).
- Total capital ratio of 16.40%, Tier 1 capital ratio of 13.61% and Common Equity Tier 1 capital ratio of 11.66% as of 30 June 2020 (Total capital ratio of 17.51%, Tier 1 capital ratio of 14.32% and Common Equity Tier 1 capital ratio of 12.28% as of 31 December 2019).
- The Bank's core business lines, financial position and asset quality are strong, non-performing loan ratio remains low. Capital adequacy ratio and liquidity maintenance ratio are above the relevant statutory requirements.
- An interim cash dividend of HK\$0.11 per share is declared for the six months ended 30 June 2020 (2019 interim cash dividend: HK\$0.17 per share).

The board of directors (the "Board") of Chong Hing Bank Limited (the "Bank") is pleased to announce the unaudited consolidated results of the Bank and its subsidiaries (the "Group") for the six months ended 30 June 2020, together with the comparative figures for the corresponding period last year. The financial information in this announcement is extracted from the interim financial information for the six months ended 30 June 2020. The interim financial information has been reviewed by the Bank's Audit Committee.

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CHAIRMAN'S STATEMENT

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 the Hong Kong Monetary Authority 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 on 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

CHIEF EXECUTIVE'S STATEMENT

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 | | Variance |
|--|---|---|----------|
| | 2020 <i>HK\$’000</i> <i>(Unaudited)</i> | 2019 <i>HK\$’000</i> <i>(Unaudited)</i> | |
| 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 | As of | |
| | 30 June | 31 December | |
| | 2020 | 2019 | |
| | <i>HK\$’000</i> | <i>HK\$’000</i> | Variance |
| | <i>(Unaudited)</i> | | |
| 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 | | Variance (Note (3)) |
|--|---|------------------------------|------------------------|
| | 2020 <i>(Unaudited)</i> | 2019 <i>(Unaudited)</i> | |
| 13. Return on shareholders' equity <i>(Note (1))</i> | 5.85% (annualised) | 7.96% (annualised) | -2.11p.p |
| 14. Earnings per share <i>(Note (2))</i> | HK\$0.64 | HK\$0.85 | -24.71% |
| 15. Net interest margin | 1.41% | 1.59% | -0.18p.p |
| 16. Cost to income ratio | 40.15% | 39.17% | +0.98p.p |
| 17. Average liquidity maintenance ratio | 45.19% | 46.00% | -0.81p.p |
| | As of 30 June 2020 <i>(Unaudited)</i> | As of 31 December 2019 | Variance |
| 18. Non-performing loan ratio | 0.41% | 0.33% | +0.08p.p |
| 19. Loan to deposit ratio | 72.38% | 69.46% | +2.92p.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% | -1.11p.p |
| 22. Tier 1 capital ratio | 13.61% | 14.32% | -0.71p.p |
| 23. Common Equity Tier 1 capital ratio | 11.66% | 12.28% | -0.62p.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 the Hong Kong Monetary Authority 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"). It also effectively manages its 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' 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.

Process Banking

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 company. 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

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2020

| | Six months ended 30 June | | Variance % |
|--|---------------------------------|---------------------------------|---------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) | |
| Interest income | 2,998,803 | 3,115,800 | -3.75 |
| Interest expense | (1,536,144) | (1,571,125) | -2.23 |
| Net interest income | 1,462,659 | 1,544,675 | -5.31 |
| Fee and commission income | 248,620 | 232,858 | +6.77 |
| Fee and commission expenses | (39,014) | (65,685) | -40.60 |
| Net fee and commission income | 209,606 | 167,173 | +25.38 |
| Net income from trading and investments | 197,380 | 122,211 | +61.51 |
| Other operating income | 80,182 | 82,458 | -2.76 |
| Operating expenses | (782,822) | (750,614) | +4.29 |
| Operating profit before impairment allowances | 1,167,005 | 1,165,903 | +0.09 |
| Net impairment losses on financial assets | (298,375) | (96,580) | +208.94 |
| Operating profit after impairment allowances | 868,630 | 1,069,323 | -18.77 |
| Net losses on disposal of equipment | (24) | (342) | -92.98 |
| Net (losses) gains on fair value adjustments on investment properties | (7,400) | 1,656 | -546.86 |
| Share of profits of associates | 3,170 | 26,165 | -87.88 |
| Profit before taxation | 864,376 | 1,096,802 | -21.19 |
| Taxation | (149,411) | (192,207) | -22.27 |
| Profit for the period | | | |
| – Attributable to equity owners of the Bank | 714,965 | 904,595 | -20.96 |
| Earnings per share – basic and diluted | HK\$0.64 | HK\$0.85 | -24.71 |

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 | <u>714,965</u> | <u>904,595</u> |
| 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") | <u>(10,431)</u> | <u>(528)</u> |
| 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 | <u>(15,033)</u> | <u>11,486</u> |
| Other comprehensive (expenses) income for the period (net of tax) | <u>(894,470)</u> | <u>224,044</u> |
| Total comprehensive (expenses) income for the period | <u>(179,505)</u> | <u>1,128,639</u> |
| Total comprehensive (expenses) income for the period attributable to: | | |
| Equity owners of the Bank | <u>(179,505)</u> | <u>1,128,639</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) | Variance % |
|--|--|--|---------------|
| Assets | | | |
| Cash and short-term funds | 17,620,648 | 20,404,505 | -13.64 |
| Placements with banks maturing between one to twelve months | 1,486,617 | 5,525,049 | -73.09 |
| Derivative financial instruments | 737,462 | 705,930 | +4.47 |
| Investments in securities | 57,999,757 | 57,534,593 | +0.81 |
| Advances and other accounts | 137,548,358 | 125,982,796 | +9.18 |
| Tax recoverable | 90,260 | – | – |
| Interests in associates | 363,281 | 377,244 | -3.70 |
| Investment properties | 298,193 | 306,610 | -2.75 |
| Property and equipment | 1,033,052 | 1,124,251 | -8.11 |
| Deferred tax assets | 73,675 | 28,767 | +156.11 |
| Intangible assets | 806,782 | 778,289 | +3.66 |
| Total assets | 218,058,085 | 212,768,034 | +2.49 |
| Liabilities | | | |
| Deposits and balances of banks | 7,122,005 | 6,949,921 | +2.48 |
| Financial assets sold under repurchase agreements | 6,292,993 | 4,253,852 | +47.94 |
| Deposits from customers | 168,913,133 | 162,664,648 | +3.84 |
| Derivative financial instruments | 3,377,037 | 1,902,951 | +77.46 |
| Other accounts and accruals | 3,371,028 | 3,172,687 | +6.25 |
| Current tax liabilities | 2,845 | 486,528 | -99.42 |
| Certificates of deposit | 77,495 | 3,749,075 | -97.93 |
| Loan capital | 4,647,976 | 4,579,912 | +1.49 |
| Deferred tax liabilities | 55,223 | 145,247 | -61.98 |
| Total liabilities | 193,859,735 | 187,904,821 | +3.17 |
| Equity attributable to owners of the Bank | | | |
| Share capital | 9,977,060 | 9,977,060 | – |
| Additional equity instruments | 3,111,315 | 3,111,315 | – |
| Reserves | 11,109,975 | 11,774,838 | -5.65 |
| Total equity | 24,198,350 | 24,863,213 | -2.67 |
| Total liabilities and equity | 218,058,085 | 212,768,034 | +2.49 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

| | Share capital | Additional equity instruments | Goodwill | Share-based payment reserve | Investment revaluation reserve | Land and building revaluation reserve | General reserve | Translation reserve | Regulatory reserve | Retained profits | Total |
|--|------------------|-------------------------------|--------------|-----------------------------|--------------------------------|---------------------------------------|------------------|---------------------|--------------------|------------------|-------------------|
| | 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 | - | - | - | - | - | - | - | - | - | (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 | - | - | - | - | - | - | - | - | - | (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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (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 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 |

| | Six months ended 30 June | |
|--|---------------------------------|--------------------|
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (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 property and equipment | 1 | – |
| | <u>700,834</u> | <u>(4,436,701)</u> |
| NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES | | |
| | <u>700,834</u> | <u>(4,436,701)</u> |
| 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) |
| | <u>(673,410)</u> | <u>(2,414,125)</u> |
| NET CASH USED IN FINANCING ACTIVITIES | | |
| | <u>(673,410)</u> | <u>(2,414,125)</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | |
| | <u>(3,482,699)</u> | <u>(53,825)</u> |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | | |
| | <u>22,298,698</u> | <u>30,694,891</u> |
| CASH AND CASH EQUIVALENTS AT 30 JUNE | | |
| | <u>18,815,999</u> | <u>30,641,066</u> |
| 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 |
| | <u>18,815,999</u> | <u>30,641,066</u> |

FINANCIAL REVIEW

For the six months ended 30 June 2020

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.

STATUTORY FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

The information in this announcement is unaudited and does not constitute statutory financial statement.

Certain financial information in this announcement is extracted from the interim report prepared under HKAS34 ‘Interim Financial Reporting’ issued by the Hong Kong Institute of Certified Public Accountants (‘HKICPA’). The interim report was reviewed by the Audit Committee. The Board of Directors of the Bank has approved the interim report on 28 August 2020.

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).

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.

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 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 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 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 amount 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.

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.

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 (Note 1) | 193,478 | – | – | 215,850 | (409,328) | – |
| Inter-segment interest expense (Note 1) | – | (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 (Note 2) | (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 | <u>628,067</u> | <u>90,787</u> | <u>35,234</u> | <u>107,118</u> | – | 861,206 |
| Unallocated corporate expenses | | | | | | – |
| Share of profits of associates | | | | | | 3,170 |
| Profit before taxation | | | | | | <u>864,376</u> |

Notes:

1. Inter-segment pricing for funding transactions is charged with reference to prevailing market interest rates.
2. 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.

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 |
| | | | | | <u>218,058,085</u> |
| 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 |
| | | | | | <u>193,859,735</u> |
| 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 |

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 | <u>760,942</u> | <u>162,290</u> | <u>17,129</u> | <u>130,294</u> | <u>–</u> | <u>1,070,655</u> |
| Unallocated corporate expenses | | | | | | (18) |
| Share of profits of associates | | | | | | <u>26,165</u> |
| Profit before taxation | | | | | | <u><u>1,096,802</u></u> |

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.

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> |
| Consolidated total assets | | | | | <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> |
| Consolidated total liabilities | | | | | <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 |

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 HK\$'000 | Profit before taxation HK\$'000 | Capital expenditure during the period HK\$'000 | Total assets HK\$'000 | Total liabilities HK\$'000 | Total contingent liabilities and commitments HK\$'000 | Non-current assets HK\$'000 |
| Hong Kong | 1,470,575 | 604,093 | 65,902 | 168,217,311 | 149,388,191 | 34,594,189 | 2,391,422 |
| Mainland China | 453,381 | 242,297 | 6,962 | 48,802,773 | 43,841,836 | 9,874,508 | 177,851 |
| Macau & 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 |

| | Six months ended 30 June 2019 | | | At 31 December 2019 | | | |
|------------------|------------------------------------|------------------------------------|---|--------------------------|-------------------------------|--|--------------------------------|
| | Total operating income HK\$'000 | Profit before taxation HK\$'000 | Capital expenditure during the period HK\$'000 | Total assets HK\$'000 | Total liabilities HK\$'000 | Total contingent liabilities and commitments HK\$'000 | Non-current assets HK\$'000 |
| Hong Kong | 1,586,218 | 1,028,125 | 61,636 | 167,367,304 | 147,671,184 | 32,637,540 | 2,370,740 |
| 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.

FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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 | <u>56,734,373</u> | <u>(1,887,715)</u> | <u>39,286</u> | <u>54,885,944</u> |

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 | <u>55,229,796</u> | <u>587,259</u> | <u>39,884</u> | <u>55,856,939</u> |

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.

| | 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> |

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.

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) |
| | <hr/> |
| Balance at 31 December 2019/1 January 2020 | 39,884 |
| Exchange difference | (598) |
| | <hr/> |
| Balance at 30 June 2020 | 39,286 |
| | <hr/> <hr/> |

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.

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.

NET INTEREST INCOME

| | Six months ended 30 June | |
|---|---------------------------------|-----------------|
| | 2020 | 2019 |
| | HK\$’000 | 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 |
| | 2,998,803 | 3,115,800 |
| 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) |
| | (1,536,144) | (1,571,125) |
| Net interest income | 1,462,659 | 1,544,675 |
| Included within interest income | | |
| Interest income on impaired loans and advances | 4,625 | 5,775 |

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).

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 |
| | <hr/> | <hr/> |
| Total fee and commission income | 248,620 | 232,858 |
| Less: Fee and commission expenses | (39,014) | (65,685) |
| | <hr/> | <hr/> |
| Net fee and commission income | <u>209,606</u> | <u>167,173</u> |
| 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) |
| | <hr/> | <hr/> |
| | <u>59,945</u> | <u>39,956</u> |

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

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 |
| | <hr/> | <hr/> |
| | <u>197,380</u> | <u>122,211</u> |

“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.

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 |
| | 80,182 | 82,458 |

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 |
| | 8,028 | 13,520 |

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 and release of prepaid lease payments for land | | |
| – 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.

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 |
| | 298,375 | 96,580 |

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.

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.

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.

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 |
| Money at call and short notice | 12,225,336 | 14,701,296 |
| | <u>17,620,648</u> | <u>20,404,505</u> |

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).

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.

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 | <u>127,178</u> | <u>57,398,341</u> | <u>474,238</u> | <u>57,999,757</u> |
| 31 December 2019 | | | | |
| Equity securities | 193 | 89,620 | – | 89,813 |
| Debt securities | 140,494 | 56,823,653 | 480,633 | 57,444,780 |
| Total | <u>140,687</u> | <u>56,913,273</u> | <u>480,633</u> | <u>57,534,593</u> |

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". 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 | <u>6,777,694</u> | <u>4,467,402</u> |
| Carrying amount of associated liabilities | <u>6,292,993</u> | <u>4,253,852</u> |

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 | <u>121,472,616</u> | <u>114,969,441</u> |
| | 129,002,901 | 118,078,914 |
| Interest receivable | 815,037 | 1,052,563 |
| Impairment allowances | | |
| – Stage 1 | (473,012) | (382,053) |
| – Stage 2 | (69,807) | (43,710) |
| – Stage 3 | <u>(168,312)</u> | <u>(193,597)</u> |
| | <u>(711,131)</u> | <u>(619,360)</u> |
| | 129,106,807 | 118,512,117 |
| Advances to banks | 766,677 | 837,275 |
| Others | <u>7,674,874</u> | <u>6,633,404</u> |
| | <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.

INVESTMENT PROPERTIES

| | 2020 | 2019 |
|---|-----------------------|-----------------------|
| | HK\$'000 | 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) |
| | <hr/> | <hr/> |
| 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.

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 |

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> |

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.

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> |

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> |

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> |

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</i> (a) & (c)) | 1,615,183 | 1,588,843 |
| US\$383 million fixed rate subordinated note due 2027 (<i>Notes</i> (b) & (c)) | <u>3,032,793</u> | <u>2,991,069</u> |
| | <u>4,647,976</u> | <u>4,579,912</u> |

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 | 2019 |
| | HK\$'000 | HK\$'000 |
| At 1 January | 4,579,912 | 4,507,147 |
| Changes from financing cash flows: | | |
| Interest paid on loan capital | <u>(97,695)</u> | <u>(98,181)</u> |
| | 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 | <u>(18,794)</u> |
| Total other changes | 100,670 | 101,140 |
| At 30 June | <u>4,647,976</u> | <u>4,594,359</u> |

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 | 31 December |
|--------------------------|----------------------|-------------------------|
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| Deferred tax assets | 73,675 | 28,767 |
| Deferred tax liabilities | (55,223) | <u>(145,247)</u> |
| | <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 | (122,538) | 62,831 | (17,543) | 100,126 | (4,424) | 18,452 |
| 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 | (119,387) | 83,731 | (18,142) | (58,258) | (4,424) | (116,480) |

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 | 3,111,315 | 3,111,315 |

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.

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 | <u>(56,677,536)</u> | <u>(20,180,512)</u> | <u>(22,926,158)</u> | <u>19,685,839</u> | <u>66,857,753</u> | <u>33,509,717</u> | <u>1,322,072</u> | <u>21,591,175</u> |
| 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 |
| | <u>-</u> | <u>10,316,174</u> | <u>6,316,841</u> | <u>2,894,429</u> | <u>22,726,587</u> | <u>15,652,640</u> | <u>13,792</u> | <u>57,920,463</u> |

| | 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 |

RELATED PARTY TRANSACTIONS

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

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

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

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.

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 | 2019 |
| | HK\$'000 | HK\$'000 |
| Short-term benefits | 100,099 | 80,965 |
| Post employment benefits | 6,210 | 5,123 |
| Share-based payment | 2,128 | – |
| | <u>108,437</u> | <u>86,088</u> |

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.

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%.

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.

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.

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.

COMPARATIVE AMOUNTS

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

OTHER FINANCIAL INFORMATION

To comply with the Banking (Disclosure) Rules, the Bank has established a “Regulatory Disclosures” section on its website (www.chbank.com) to house the information related to the disclosure requirements as required by the Banking (Disclosure) Rules. The Banking Disclosure Statement, together with the disclosures in the Group’s 2020 Interim Report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA. The Banking Disclosure Statement and the Interim Report for the six months ended 30 June 2020 will be available on the website of the Bank in September 2020.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Bank is an authorized institution supervised by 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Listing Rules (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.

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.

PUBLICATION OF 2020 INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of the Bank (www.chbank.com) and Hong Kong Exchanges and Clearing Limited (the "HKEX") (www.hkexnews.hk). The Bank's 2020 Interim Report in both English and Chinese will be available on the websites of the Bank and the HKEX, and the printed copies will be despatched to the shareholders of the Bank, both in September 2020.

By Order of the Board
Chong Hing Bank Limited
Lai Wing Nga
Company Secretary

Hong Kong, 28 August 2020

As at the date of this announcement, the Board comprises:

- *Executive Directors*
Mr Zong Jianxin (Deputy Chairman and Chief Executive) and Mr Lau Wai Man (Deputy Chief Executive);
- *Non-executive Directors*
Mr Zhang Zhaoxing (Chairman), Mr Li Feng, Mr Chow Cheuk Yu Alfred and Ms Chen Jing; and
- *Independent Non-executive Directors*
Mr Cheng Yuk Wo, Mr Ma Chiu Cheung Andrew, Mr Lee Ka Lun and Mr Yu Lup Fat Joseph.