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2021 INTERIM RESULTS

RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

HIGHLIGHTS

- Operating profit before impairment allowances amounted to HK\$1,283 million, representing an improvement of 9.92% from the corresponding period in 2020.
- Operating profit after impairment allowances increased by 19.92% from the corresponding period in 2020 to HK\$1,042 million.
- Profit attributable to equity owners amounted to HK\$951 million, representing an increase of 33.05% from the corresponding period in 2020.
- Return on shareholders' equity of 6.93% (5.85% in 2020) and earnings per share of HK\$0.82 (HK\$0.64 in 2020).
- Total capital ratio of 16.58%, Tier 1 capital ratio of 14.19% and Common Equity Tier 1 capital ratio of 11.22% as of 30 June 2021 (Total capital ratio of 16.79%, Tier 1 capital ratio of 14.36% and Common Equity Tier 1 capital ratio of 11.27% as of 31 December 2020).
- 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 2021 (2020 interim cash dividend: HK\$0.11 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 2021, 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 2021. 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 2021, the global economy was still affected by the COVID-19 pandemic, and the pace of recovery varied among economies. Many industries, including banking, still face myriad challenges. Chong Hing Bank Limited (the “Bank” or “Chong Hing Bank”) has managed to rise to the tough challenges by continuing to strengthen its comprehensive risk prevention and controls, as well as by reinforcing its foundation for sustaining steady development. During the ongoing pandemic, the Bank also accelerated its business transformation initiatives and maintained its provision of quality products and services to customers.

In the “Top 1000 World Banks” list released by the British magazine “The Banker” in 2021, Chong Hing Bank’s ranking rose to 376th, placing it among the top 400 for the third consecutive year and demonstrating further improvement in its all-round strength.

The continued uncertainties brought by the pandemic to the local economy created a major challenge to the banking industry in Hong Kong, with Hong Kong dollar interest rates hovering at historic lows and net interest margins under pressure. On the other hand, by benefiting from the quick economic recovery in China, the Mainland business of the Bank expanded rapidly. Meanwhile, the Bank grasped market opportunities in the face of adversity and achieved satisfactory growth in net fees, commissions and other operating income. Operating profit before impairment allowances amounted to HK\$1,283 million, an increase of 9.92% compared to the same period last year. Profit attributable to equity owners amounted to HK\$951 million, an increase of 33.05% compared to the same period last year. Earnings per share were HK\$0.82. Facing the uncertain economic outlook, the Board of Directors of the Bank (the “Board”) has recommended payment of an interim cash dividend of HK\$0.11 per share for the six months ended 30 June 2021. The dividend payout for the period as a percentage of the profit attributable to equity owners, less the distribution paid on additional equity instruments, will be 13.30% (2020: 17.47%).

The major financial ratios for the first half of 2021 are as follows:

- Return on shareholders’ equity: 6.93%
- Average liquidity maintenance ratio: 45.72%
- Total capital ratio as of 30 June 2021: 16.58%
- Tier 1 capital ratio as of 30 June 2021: 14.19%
- Loan to deposit ratio as of 30 June 2021: 73.37%

Since the beginning of this year, the global economy has gained significant momentum due to the strong fiscal and monetary policy measures adopted by major economies as well as the large-scale rollout of the COVID-19 vaccination programmes. However, the recurrence of the pandemic, coupled with geopolitical uncertainties and strains in Sino-US relations, have held the global economy back from returning to an upward trajectory. Mainland China’s Gross Domestic Product (GDP) in the first half of the year increased by 12.7% year-on-year, indicating the positive results of the nationwide pandemic prevention and control measures as well as the country’s economic and social development, with the overall economic development showing a stable and improving trend. For its part, Hong Kong’s economy has gradually recovered since the first quarter of this year, and its well-established financial system has demonstrated a high degree of stability during this difficult period. With the pandemic under control, the development momentum is expected to continue to improve.

The Outline of China’s “14th Five-Year-Plan” was officially approved in March this year. It explicitly supports Hong Kong in enhancing its status as an international financial centre and deepening the interconnection and interoperability between the financial markets of the Mainland and Hong Kong, with a view to building the Guangdong, Hong Kong and Macao Greater Bay Area (the “Greater Bay Area”) in a high-quality manner. The forthcoming introduction of the “Cross-boundary Wealth Management Connect” will also strengthen Hong Kong’s role as an important bridge for capital flows to and from the Mainland. In view of the fact that cross-border finance is one of the key strategies for the development of the Greater Bay Area, Chong Hing Bank is actively seizing this opportunity to capitalise on its strengths of internal and external integration with businesses straddling Guangdong and Hong Kong, focusing on its vision of becoming “an integrated commercial bank with cross-border expertise”. The Bank will expand its network step by step in major core cities in the Greater Bay Area, strengthen its comprehensive service capability in cross-border finance, and strive to establish a distinctive and differentiated competitive edge. During the reporting period, Yue Xiu Enterprises (Holdings) Limited (the “Offeror”) and the Bank jointly announced the proposal for the privatisation of the Bank by the Offeror by way of a scheme of arrangement under Section 673 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and for the withdrawal of listing of the shares of the Bank on The Stock Exchange of Hong Kong Limited (the “Proposal”). It is expected that the Proposal would allow the Bank to expand and enhance its businesses more efficiently without diluting the independent shareholders’ interests.

The pandemic accelerated changes in the public’s consumption patterns and made financial technology an inevitable focus of the banking industry in a situation that has become the new normal. Chong Hing Bank has actively invested resources in digital transformation, and a major achievement in the first half of the year was the successful launch of the new core banking system. This will significantly strengthen business processing capabilities, increase the “financial scene” application, enhance the digital financial service experience required by customers on a daily basis, and thereby stay fully in line with the general trend of financial technology development.

Looking ahead to the second half of the year, widespread vaccination has brought hope in the global fight against the pandemic. But the uncertainty of the international environment and the difference in the pace of economic recovery among countries have added unpredictability to the path of global recovery. Chong Hing Bank will actively respond to the changes and challenges arising in the post-pandemic era in a prudent and pragmatic manner, deepen its forward-looking risk management, optimise business structure, and strengthen digital banking platforms to enhance its integrated financial services capabilities. At the same time, the Bank will grasp every critical opportunity for advancement, focusing on developing its Mainland business and expanding its institutional presence in the Mainland. By fusing into the country’s overall development, the Bank will strive to become an integrated commercial bank with cross-border operations, rooted in Guangzhou and Hong Kong, covering the Greater Bay Area and facing towards the whole country.

The first half of 2021 was full of challenges. I would like to thank all our directors for their wise leadership, as well as our customers and business partners for their trust in the Bank, with special thanks to our management team and the entire staff for their tireless efforts and perseverance. These have enabled Chong Hing Bank to adjust its development strategies and drive changes effectively and quickly. In this new era and landscape, Chong Hing Bank will cherish new hopes and seize every opportunity that arises to move forward on the new journey towards quality development in a steadfast manner.

ZHANG Zhaoxing
Chairman

Hong Kong, 13 August 2021

CHIEF EXECUTIVE'S STATEMENT

ECONOMIC ENVIRONMENT

The global economy started to recover in early 2021, and since many countries expect the threat of the pandemic to diminish gradually, a number of international institutions have raised their global economic growth forecasts. The US economy continues to rebound, with the government proposing a US\$6 trillion budget in May to boost the economy, following the US\$1.9 trillion fiscal measures introduced in March. The nation's Gross Domestic Product (GDP) increased at an annual rate of 6.5% in the second quarter. The US Federal Reserve emphasised that the economic outlook remains uncertain and continued to maintain the interest rates and the scale of quantitative easing unchanged in the first half of the year. In the Eurozone, although the pandemic is gradually easing, the European Central Bank maintains its ultra-loose monetary policy and remains cautious about the bloc's macroeconomic outlook. Looking ahead to the second half of the year, developments in the pandemic and in Sino-US political and economic relations will continue to affect global economic prospects.

In China, the pandemic continues to be under control and the economy has maintained a stable recovery, with GDP growing by 12.7% year-on-year in the first half of the year. In face of the complex and volatile domestic and international environment, the Mainland will maintain the continuity, stability and sustainability of its macro policies to drive the economy to operate within a reasonable range. The exchange rate of the Renminbi against the US dollar rose slightly by 1.2% in the first half of the year, remaining generally stable. The economy of Chong Hing Bank's major business areas in the Mainland continues to improve steadily as they have effectively coordinated the prevention and control of the pandemic while at the same time provided solid support for the overall economic and social development. In Guangzhou, the high-tech manufacturing sector grew significantly, and output of electronic products continued to rise, resulting in a 13.7% year-on-year increase in GDP in the first half of the year. In Shenzhen, industrial production grew steadily and the recovery of the consumer market continued, resulting in a 9.7% year-on-year increase in GDP in the first half of the year. In Shanghai, an accelerated recovery was seen in the demand for production, with the service sector rebounding steadily, and employment and prices remaining stable. Shanghai's GDP rose by 12.7% year-on-year in the first half of the year.

Hong Kong's GDP grew by 7.8% year-on-year in the first half of the year as the global economic momentum further strengthened and trade activity picked up significantly. In its foreign trade, benefiting from a strong rebound in global demand, goods exports rose by 20.3% year-on-year in the second quarter; travel services exports remained sluggish, with the improvement in exports of transport and business services resulting in services exports rising by 2.6% year-on-year in the second quarter. In terms of internal demand, private consumption expenditure in the second quarter grew by 6.5% year-on-year due to the easing of the local pandemic situation. With the recovering external environment bringing an improvement to the business atmosphere, gross domestic fixed capital formation increased by 23.7% year-on-year in the second quarter. The unemployment rate fell back to 5.5% in June as the labour market improved along with the recovery of the economy. The local pandemic has stabilised, leading to a robust property market, with the private residential price index rising five months in a row, and overall property registrations in the first half rising by about 53.7% year-on-year, an 8.5-year high. In the Hong Kong stock market, the Hang Seng Index has fallen since February this year. After once rising above 31,000 points, it closed at 28,827 points on the last trading day of the first half of the year, a cumulative gain of 5.8% in six months.

RESULTS ANNOUNCEMENT AND PROFIT ANALYSIS

The results of Chong Hing Bank Limited (the “Bank” or “Chong Hing Bank”) for the six months ended 30 June 2021, calculated on an unaudited and consolidated basis, are summarised below:

KEY FINANCIAL DATA

	Six months ended 30 June		Variance
	2021 <i>HK\$'000</i> <i>(Unaudited)</i>	2020 <i>HK\$'000</i> <i>(Unaudited)</i>	
1. Operating profit before impairment allowances	1,282,797	1,167,005	+9.92%
2. Profit attributable to equity owners	951,226	714,965	+33.05%
3. Net interest income	1,603,068	1,462,659	+9.60%
4. Net fee and commission income	293,116	209,606	+39.84%
5. Net income from trading and investments	220,968	197,380	+11.95%
6. Other operating income	99,171	80,182	+23.68%
7. Operating expenses	933,526	782,822	+19.25%
8. Net impairment losses on financial assets	241,093	298,375	-19.20%
	As of 30 June 2021 <i>HK\$'000</i> <i>(Unaudited)</i>	As of 31 December 2020 <i>HK\$'000</i>	Variance
9. Loans and advances to customers	153,147,952	142,381,617	+7.56%
10. Deposits from customers	195,656,842	183,228,291	+6.78%
11. Investment in securities	59,567,695	52,853,752	+12.70%
12. Total assets	242,606,793	232,899,647	+4.17%
	Six months ended 30 June 2021 <i>(Unaudited)</i>	2020 <i>(Unaudited)</i>	Variance <i>(Note 4)</i>
13. Return on shareholders' equity <i>(Note 1)</i>	6.93% (annualised)	5.85% (annualised)	+1.08p.p
14. Earnings per share <i>(Note 2)</i>	HK\$0.82	HK\$0.64	+28.13%
15. Net interest margin	1.33%	1.41%	-0.08 p.p
16. Cost to income ratio	42.12%	40.15%	+1.97 p.p
17. Average liquidity maintenance ratio	45.72%	45.19%	+0.53 p.p

	As of 30 June 2021 (Unaudited)	As of 31 December 2020	Variance
18. Non-performing loan ratio	0.58%	0.65%	-0.07 p.p
19. Loan to deposit ratio	73.37%	73.65%	-0.28 p.p
20. Net assets value per share (excluding additional equity instruments and before the interim/final dividend)	HK\$24.06	HK\$23.14	+3.98%
21. Total capital ratio (<i>Note 3</i>)	16.58%	16.79%	-0.21 p.p
22. Tier 1 capital ratio (<i>Note 3</i>)	14.19%	14.36%	-0.17 p.p
23. Common Equity Tier 1 capital ratio (<i>Note 3</i>)	11.22%	11.27%	-0.05 p.p

Notes:

- (1) Return on shareholders' equity took into consideration the distribution paid on the additional equity instruments relevant for the period.
- (2) Earnings per share were calculated after deducting the distribution paid on the additional equity instruments relevant for the period.
- (3) The ratio is calculated on a consolidated basis in accordance with the Banking (Capital) Rules.
- (4) p.p means percentage point.

ANALYSIS OF KEY FINANCIAL DATA

In the first half of 2021, on an unaudited and consolidated basis, the profit attributable to equity owners of the Bank amounted to HK\$951 million, representing an increase of 33.05% from the same period in 2020, while the operating profit before impairment allowances amounted to HK\$1,283 million, representing an increase of 9.92% from the same period in 2020. The increase in consolidated profit for the period was mainly attributable to the growth of net interest income and net fee and commission income.

Net interest income was HK\$1,603 million, increased by 9.60% as compared with the same period last year. Hong Kong dollar interest rates were hovering at historical lows and net interest margin was under pressure. The Bank's net interest margin was 1.33% in the first half of 2021, decreased by 8 basis points from the same period last year.

Net fee and commission income increased by 39.84% to HK\$293 million, which was mainly attributable to the increase in fee income from loan-related businesses and securities dealings commissions.

Foreign exchange and other treasury customer activities remained stable. Net income from trading and investments recorded a gain of HK\$221 million, which was mainly derived from trading income, foreign currency funding swap activities and foreign currency transactions with customers.

Net impairment losses on financial assets decreased to HK\$241 million in the first half of 2021 when compared with the same period last year, which was mainly due to the improvement in credit ratings of individual non-performing loans and the reversal of impairment losses in response to the repayment of several non-performing loans.

The Bank prudently managed costs and devoted efforts to improve processes and thus efficiency, and at the same time continued to strengthen its professional team and IT systems to support business growth in Hong Kong and the Mainland.

As of 30 June 2021, total loans and advances to customers increased by 7.56% to HK\$153.1 billion as compared to the position as of 31 December 2020. 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 0.58% which was at a sound market level.

As for deposit, total deposits from customers as of 30 June 2021 increased by 6.78% to HK\$195.7 billion when compared to the position as of 31 December 2020. 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 4.17% to HK\$242.6 billion. As of 30 June 2021, 70.34% of the Bank's assets were based in Hong Kong.

Due to proactive and effective management of assets and liabilities, the Bank slightly reduced the level of loan to deposit ratio from 73.65% on 31 December 2020 to 73.37% on 30 June 2021, while keeping a sound level of liquidity maintenance ratio with an average of 45.72% in the first half of 2021.

Total capital ratio decreased from 16.79% in December 2020 to 16.58% in June 2021; the Tier 1 capital ratio was at 14.19% and the Common Equity Tier 1 capital ratio was at 11.22%.

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 uncertain economic outlook, the Board has declared the payment of an interim cash dividend for 2021 of HK\$0.11 per share, payable on Thursday, 7 October 2021 to the shareholders whose names appear on the register of members of the Bank on Tuesday, 7 September 2021 (2020 interim cash dividend: HK\$0.11 per share paid on Thursday, 15 October 2020).

PROPOSAL FOR THE PRIVATISATION OF CHONG HING BANK BY WAY OF A SCHEME OF ARRANGEMENT

The Bank and Yue Xiu Enterprises (Holdings) Limited (the “Offeror”) have jointly issued an announcement dated 18 May 2021 in relation to, among other matters, the proposal for the privatisation of the Bank by the Offeror by way of a scheme of arrangement (the “Scheme”) under Section 673 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and for the withdrawal of listing of the shares of the Bank on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Proposal”), and the proposal for the Offeror to make an offer to cancel all Outstanding Share Awards (as defined in the Scheme Document) held by each Outstanding Share Award Holder (as defined in the Scheme Document) (the “Share Award Offer”). The Bank and the Offeror have further jointly issued the composite scheme document dated 30 July 2021 (the “Scheme Document”) in relation to, among other matters, the Proposal and the Share Award Offer.

If the Proposal is approved and implemented, the Offeror will pay to each Scheme Shareholder (as defined in the Scheme Document) a cancellation price of HK\$20.80 (less the Dividend Adjustment (as defined in the Scheme Document) (if any)) per Scheme Share (as defined in the Scheme Document) in cash for the cancellation and extinguishment of such Scheme Share(s). Under the Share Award Offer, which will become unconditional immediately upon the Scheme becoming effective, each Outstanding Share Award Holder who accepts the Share Award Offer will receive a share award offer price of HK\$20.80 (less the Dividend Adjustment (if any)) per Outstanding Share Award (as defined in the Scheme Document) in cash for cancellation of such Outstanding Share Award(s) in accordance with the terms set out in the Scheme Document. As the 2021 interim dividend is not more than HK\$0.11 per Share, pursuant to the terms of the Proposal, there will not be any Dividend Adjustment, and hence the cancellation price per Scheme Share and the Share Award Offer Price per Outstanding Share Award of HK\$20.80 respectively will not be adjusted and will remain unchanged. As at the date of this announcement, save for the 2021 interim dividend which has been declared, the Bank does not intend to announce, declare, make or pay any dividend, distribution or return of capital on or before the Effective Date (as defined in the Scheme Document).

Upon the Scheme becoming effective, the Bank will become an indirect wholly-owned subsidiary of the Offeror and the listing of the Bank’s shares on the Stock Exchange will be withdrawn. For details of the Proposal, please refer to the Scheme Document.

The Proposal, if successfully implemented, would facilitate the Offeror’s contribution of financial resources into the Bank to satisfy capital requirements without dilution of the interests of the Bank’s independent shareholders and the Offeror’s support of the execution of the Bank’s growth plan following implementation of the Proposal.

Furthermore, following the implementation of the Proposal, the Offeror and the Bank can make strategic decisions free from the pressure of market expectations, short-term profit visibility and share price fluctuation as a publicly listed company. The management of the Bank can also better utilise the resources which would otherwise go towards administrative and compliance-related matters on business operations of the Group.

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 the linkage of its outlets in Hong Kong and the Mainland, providing a variety of cross-border financial products and services to accommodate its corporate customers' funding requirements in the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area"), and effectively managing their interest rate and exchange risks through its treasury product portfolio.

In the first half of 2021, despite the challenges of the ongoing pandemic, the slow economic recovery and the pressure on credit demand, the Bank's corporate banking reported moderate growth in both net interest income and non-interest income compared to the same period last year, and stable growth in all segments:

- Through the close cooperation among various business units, the Bank provides corporate customers with a variety of value-added services such as employee financial management, MPF and wealth management, creating a one-stop banking services platform.
- To assist local SMEs, the Bank fully supports the "SME Financing Guarantee Scheme" offered by HKMC Insurance Limited and the "Special 100% Loan Guarantee" under this scheme.
- The Bank completed a total of 23 syndicated loans, acting as a lead arranger and distributor for two of them. In addition, the Bank made transactions via the secondary market to continuously enhance the quality of the loan asset portfolio and improve relevant returns.
- The Bank continued to provide professional cross-border financial services to customers in Hong Kong and the Mainland. Apart from arranging and underwriting a number of structured finance transactions, the Bank successfully conducted the first cross-border RMB Forfeiting asset transfer business. This opened up the market for trade financing on both sides of the border, and introduced a number of customer-friendly services such as cross-border document presentation and cross-border document certification.

PERSONAL BANKING

The pandemic has posed serious challenges to the banking business and has driven changes in the retail banking business model. The Bank accelerated the pace of its digital transformation and actively developed online business in order to provide customers with quality banking services continuously to meet their financial needs. At the same time, the Bank reinforced its relationship with customers by strengthening communication with them and launching a variety of promotional activities to enhance the customer experience and satisfaction, thereby creating additional value and momentum for its personal banking business.

The Bank has developed a robust business strategy, supported by the promotion of its local and cross-border business through online and offline means, and maintained sound growth in its personal banking business during the period:

- The new “Exceed Banking” segment brand was launched in April, enabling the Bank to attract customers with total assets of HK\$1 million or more and to actively promote cross-border banking services.
- The wealth management business generated strong revenue, with year-on-year growth of approximately 70%. In addition, the Bank is actively preparing for the launch of “Cross-boundary Wealth Management Connect”, which is expected to broaden the Bank’s network and diversified financial services. This scheme will integrate the strengths of the Bank in asset management and risk management with that of the real economy prospects in the Greater Bay Area, providing cross-border investors with more convenient investment channels.
- The proportion of customers using Cloud Rate for time deposits via electronic channels continues to increase, with growth of over 80% from the end of last year.
- Due to the ongoing pandemic and the downward trend in the economy, customers placed more deposits in savings and current accounts for liquidity purposes, resulting in an increase in both the amount and percentage of deposits in savings and current accounts. The overall deposit balance remained stable.
- As for the retail loans business, the Bank focused on promoting its premium and insurance policies financing business and providing a wide range of secured loan products for customers in order to boost the wealth management products financing business, increase comprehensive income and optimise the Bank’s loan portfolio. The Bank also actively promotes the Mainland property mortgage service, providing a one-stop mortgage solution for Hong Kong permanent residents who own properties in the Greater Bay Area.
- The Bank continued to optimise its agency insurance products to meet customers’ needs. During the period, the Bank renewed various insurance products such as short-term and long-term savings insurance, tax-deductible annuities, voluntary medical insurance and universal life insurance, and so on. The Bank’s commission income from agency life insurance business increased by 20% compared to the same period last year.

TREASURY AND MARKETS BUSINESS

The Bank is committed to developing its financial market business and secured significant growth in areas such as treasury business, customer business and product development. In recent years, the Bank has established its proprietary trading business while keeping risks under control, enhanced its ability to provide quotations and expanded its market share, thereby further increasing revenue for the Bank.

Regarding its 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 limits to ensure a prudent liquidity level. The Bank has continued to leverage its dynamic investment strategies and capture potential treasury business opportunities to diversify revenue sources.

As part of its strategic planning, the Bank has progressively strengthened its product and marketing team by hiring highly experienced 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

The Bank's Mainland institutions managed to overcome the adverse impact of the pandemic rebound and made efforts to adjust their structure, reduce costs and increase revenue, seeking progress in a stable manner. During the period, the quality of assets remained excellent, profitability continued to improve, the customer base was solidly expanded, and the comprehensive risk management system continued to improve.

The Bank's Mainland branches and sub-branches operated prudently and steadily, focused on enhancing the value of its core customers, continued to drive product system setup, and improved the network layout in the Greater Bay Area in an orderly manner. This line of action resulted in the continued healthy expansion of the Bank's business in the Mainland and the continuation of a good development trend:

- Riding on the businesses it has developed in Guangdong, Guangzhou, Shantou and Hengqin, the Guangzhou Branch manage to further expand its customer base, covering provincial, city, district and street level customers, and has continued to broaden the sources of its institutional deposits.
- The Bank actively grasps the development opportunities arising in the changing market, adjusts its credit structure in an orderly manner, accelerates credit allocation in key areas, and strengthens its coordination with investment banks.
- With breakthroughs in a variety of financial market businesses, the Guangzhou Branch seized the opportunity of local government bond underwriting and issuance business to increase bond business income and enrich the source of non-interest income. The Branch was awarded the honour of the "2020 Overseas Institution for Bond Underwriting Transaction" title by the Shenzhen Stock Exchange. In addition, the Guangzhou Branch obtained market access for the "interest rate swap business" in the national interbank market, and the Shenzhen Branch achieved the first online interbank deposit transaction through the local currency trading system of the National Interbank Funding Center.
- The Bank continued to deepen cross-border ties, actively participated in financial innovation in the Greater Bay Area, and launched new cross-border products. The Shenzhen Branch implemented the Bank's first cross-border Renminbi Forfeiting asset transfer business, resulting in steady growth in cross-border business settlement and financing.
- The Shenzhen Branch relocated to its new premises in the China Resources Building in Nanshan District on 13 May; the new Shenzhen Nanshan Sub-branch officially opened on 12 July, making it Chong Hing Bank's 11th branch in the Mainland and the ninth Mainland institution in the Guangdong, Hong Kong and Macau Greater Bay Area.

CHONG HING SECURITIES LIMITED

In the first half of 2021, a number of companies continued to come to Hong Kong for secondary listings, boosting the development of Hong Kong's financial and capital markets and creating a buoyant investment climate. During the period, the overall turnover and commission income of Chong Hing Securities increased by over 40% and 34% respectively, compared to the same period last year. With the increased usage of the "Chong Hing Securities Mobile App", the trading volume of related electronic channels recorded a 70% increase compared to the same period last year. This, coupled with the launch of a new service for customers to apply for Chong Hing Securities account opening via Chong Hing Mobile Banking App and various promotional strategies, helped drive new customers and brought growth to the business of Chong Hing Securities.

CHONG HING INSURANCE COMPANY LIMITED

The pandemic has brought operating pressure to the insurance industry as a whole and also affected the development of the general insurance business. Under the sound operation of Chong Hing Insurance, the overall underwriting profit and profit before tax of the direct business remained stable due to the reduction in claims for accident and health business and employees' compensation business. Despite a slight decrease in gross premiums during the period, Chong Hing Insurance maintained a positive overall performance.

CHONG HING INSURANCE BROKERS LIMITED

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. It has made every effort to expand its service to middle and high-end individual and corporate customers in Hong Kong and the Greater Bay Area, and assist them in buying long-term life insurance in Hong Kong. During the period, Chong Hing Insurance Brokers successfully provided quality services to policyholders and helped them achieve their wealth accumulation and family protection goals through insurance solutions such as "premium financing".

TRANSFORMATION OF BUSINESS DEVELOPMENT

Fintech

The successful completion of Chong Hing Bank's new core banking system upgrade project on 4 April signifies the creation of a new core operational foundation for the Bank to push ahead with its digital transformation goals. With the support of the new core banking system, the Bank will continue to invest more resources in the digital transformation project to create business value by empowering different areas with the latest technology. The Bank will also continue to build operational strength to bring its operational efficiency, risk control and customer experience to a new level.

The Bank continued to enhance its digital banking products and services, introducing a number of measures to facilitate online bank account opening and transactions, as well as promotional offers to attract customers. One of these initiatives was the opening of Chong Hing Securities account via Chong Hing Mobile Banking App to address the inconvenience due to restrictions imposed during the pandemic. During the period, the digital banking services achieved satisfactory results, with active customers increasing by 12% and online financial transactions rising by 29% compared to the same period last year.

Operational Optimisation

For the fifth year in a row, the Bank has committed itself to enhancing its operations and has successfully completed more than 100 process enhancement projects to enhance operational efficiency and customer experience. Following the successful launch of the new core banking system, 18 further process optimisation projects were completed in just a few months to enhance customer service capabilities and facilitate the development of cross-border business. In addition, in order to broaden the revenue stream, the Bank accelerated the expansion of “transaction banking” services, providing new and express services to facilitate corporate banking customers to conduct business and process financial transactions. This led to growth in the Bank’s overall service revenue.

In the digitisation of its operations, the Bank has continued to promote Robotic Process Automation (RPA) projects and in the past 18 months has successfully implemented 14 fully automated processes. The Bank has also accelerated the implementation of RegTech, including the implementation of automated customer due diligence processes and automated anti-money laundering transaction monitoring processes. The Bank’s Mainland institutions have also implemented process automation in online banking operations and supervisory data monitoring to reduce manual processing time and human errors, and thus enhance operational efficiency.

CORPORATE CULTURE

The Bank continued to strengthen its corporate culture promotion, with risk culture as the focus in 2021. The Bank is committed to enhancing the risk awareness of its employees and promoting the Bank’s sustainable and healthy development.

- “The 3rd Corporate Culture Ambassador Programme” was launched; 25 ambassadors were appointed to promote the corporate culture.
- The “Chong Hing People’s Charter” was launched with the theme of “Risk Management Culture” to raise employees’ understanding of risk management and their responsibility for it.
- The “Risk Management Awards 2021” was established to recognise employees who are committed to going beyond their areas of responsibility and who have demonstrated excellence in risk management processes.
- The Star Programme and Staff Compliments Platform were established to recognise units and employees for their commitment to corporate culture and service excellence, and to promote a sense of belonging and team spirit.
- A professional organisation was appointed to conduct customer service surveys to examine the effectiveness of the implementation of the Bank’s corporate culture.
- A promotional video showcasing the Bank as a good employer was released and distributed through social media platforms to raise public awareness of Chong Hing Bank’s culture.

CORPORATE RESPONSIBILITY

The Bank actively participates in activities to give back to the community, protect the environment, and recognise the contribution made by its employees to the development of the Bank. Its commitment to corporate social responsibility was demonstrated by the following activities and recognitions accorded by the community during the period:

- Participated in the “Earth Hour 2021” environmental protection activity.
- Awarded the “Happy Company” 2021 logo presented by the Hong Kong Promoting Happiness Index Foundation.
- Won the 10 Years plus Caring Company Logo from the Hong Kong Council of Social Service.
- Won the “Raffle Sales Award” presented by the Tung Wah Group of Hospitals.
- On the eve of the Lunar New Year and Mother’s Day, classes were held for students of two social welfare organisations and children with hearing impairment to perform 3D fabric art Fai Chun-making and preserved flowers making, respectively. The “Zoom with the Elderly” (與長者Zoom傾談) activity was held to talk with elderly people living in homes for seniors via a video platform. Grassroots families, elderly people living alone and people with disabilities could feel the care and warmth of the community in the midst of the pandemic.

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 2021:

- In the “Top 1000 World Banks” list issued by the British magazine “The Banker”, Chong Hing Bank ranked 376th, making it one of the top 400 banks for the third consecutive year. Since becoming a member of the Yuexiu Group in 2014, the Bank has jumped more than 340 places in the rankings, demonstrating the continuing improvement in its overall strength.
- Won the “Best SME’s Partner Award” from the Hong Kong General Chamber of Small and Medium Business for the 13th time and continued to receive the “Best SME’s Partner Gold Award”.
- Honoured with the “Talent Development Award” under the “Hong Kong Banking Industry Talent Development Awards Programme” organised by The Hong Kong Institute of Bankers in recognition of the Bank’s contribution to attracting and developing talent and encouraging staff to obtain professional banking qualifications.

LOOKING AHEAD

Hong Kong's economy showed a marked recovery in the first quarter of the year, but the overall economic activity has not yet reached the pre-pandemic level. The recurrence of the pandemic, coupled with the outbreak of the mutated virus and the impact of worsening geopolitical factors, have added uncertainty to the economic outlook, and the banking industry in Hong Kong still faces numerous challenges.

With the support of its controlling shareholder Yuexiu Group, the Bank has seized the opportunity presented by the national strategy of promoting the Greater Bay Area development, and continued to deepen cross-border collaboration and linkages. The Bank will drive the implementation of its "14th Five-Year Plan", striving to achieve its corporate vision of "an integrated commercial bank with cross-border expertise".

The Mainland economy is recovering well. The Bank will continue to focus on the development of its Mainland business, accelerate the establishment of institutions in the Mainland, endeavour to set up more branches/sub-branches in key cities and improve its network in the Greater Bay Area, so as to form a dual core development pattern of Hong Kong and Mainland businesses. With the successful launch of the new core banking system in the first half of the year, the Bank's business transformation has entered a new phase and the Bank will push ahead with the development of financial technology projects. In the face of forthcoming challenges, the Bank will strengthen its business capabilities on a solid operational foundation, enhance its competitiveness, improve risk management and continue to provide quality services to customers.

APPRECIATION

Under the complex and challenging operating environment, the Bank has maintained its business growth and achieved good operating results, thanks to the dedicated guidance of the Board of Directors who have overseen the orderly development of the Bank's strategic projects. I would like to express my gratitude to the management team for their dedication and diligence, and to all staff for their positive attitude in dealing with the repeated outbreaks of the pandemic. I am grateful to the shareholders, partners and customers for their continuous support and trust in the Bank. Chong Hing Bank will seize the opportunity arising to fully leverage its professional strengths, inject new energy, build cross-border financial services capabilities and achieve high quality development.

ZONG Jianxin
Chief Executive

Hong Kong, 13 August 2021

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2021

	Six months ended 30 June		Variance %
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	
Interest income	2,646,428	2,998,803	-11.75
Interest expense	(1,043,360)	(1,536,144)	-32.08
Net interest income	1,603,068	1,462,659	+9.60
Fee and commission income	336,422	248,620	+35.32
Fee and commission expenses	(43,306)	(39,014)	+11.00
Net fee and commission income	293,116	209,606	+39.84
Net income from trading and investments	220,968	197,380	+11.95
Other operating income	99,171	80,182	+23.68
Operating expenses	(933,526)	(782,822)	+19.25
Operating profit before impairment allowances	1,282,797	1,167,005	+9.92
Net impairment losses on financial assets	(241,093)	(298,375)	-19.20
Operating profit after impairment allowances	1,041,704	868,630	+19.92
Net losses on disposal of equipment	(1,890)	(24)	+7,775.00
Net gains (losses) on fair value adjustments on investment properties	11,988	(7,400)	+262.00
Share of profits of associates	59,371	3,170	+1,772.90
Profit before taxation	1,111,173	864,376	+28.55
Taxation	(159,947)	(149,411)	+7.05
Profit for the period			
– Attributable to equity owners of the Bank	951,226	714,965	+33.05
Earnings per share – basic and diluted	HK\$0.82	HK\$0.64	+28.13

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period	<u>951,226</u>	<u>714,965</u>
Other comprehensive income		
Items that may not be reclassified subsequently to profit or loss:		
Net gains (losses) on investments in equity instruments measured at fair value through other comprehensive income ("FVOCI")	<u>6,184</u>	<u>(10,431)</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	46,883	(102,302)
Net gains (losses) on investments in debt instruments measured at FVOCI	372,428	(864,498)
Amount reclassified to profit or loss upon disposal of FVOCI debt securities	(49,468)	(60,590)
Income tax effect relating to disposal of financial assets measured at FVOCI	8,162	9,997
Income tax effect relating to fair value change of financial assets measured at FVOCI	(62,133)	148,387
Share of other comprehensive income of associates	<u>4,039</u>	<u>(15,033)</u>
Other comprehensive income (expenses) for the period (net of tax)	<u>326,095</u>	<u>(894,470)</u>
Total comprehensive income (expenses) for the period	<u>1,277,321</u>	<u>(179,505)</u>
Total comprehensive income (expenses) for the period attributable to: Equity owners of the Bank	<u>1,277,321</u>	<u>(179,505)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)	Variance %
Assets			
Cash and short-term funds	18,124,957	21,800,643	-16.86
Placements with banks maturing between one to twelve months	967,851	1,478,103	-34.52
Derivative financial instruments	433,806	1,645,450	-73.64
Investments in securities	59,567,695	52,853,752	+12.70
Advances and other accounts	160,598,476	152,283,092	+5.46
Tax recoverable	187,203	168,841	+10.88
Interests in associates	458,763	399,553	+14.82
Investment properties	311,956	299,513	+4.15
Property and equipment	1,053,567	1,095,218	-3.80
Deferred tax assets	26,254	32,109	-18.23
Intangible assets	876,265	843,373	+3.90
Total assets	242,606,793	232,899,647	+4.17
Liabilities			
Deposits and balances of banks	5,369,467	8,229,574	-34.75
Financial assets sold under repurchase agreements	2,502,402	786,540	+218.15
Deposits from customers	195,656,842	183,228,291	+6.78
Derivative financial instruments	1,633,989	3,775,482	-56.72
Other accounts and accruals	2,908,710	3,241,808	-10.28
Current tax liabilities	67,864	21,852	+210.56
Certificates of deposit	2,427,767	2,551,530	-4.85
Loan capital	3,020,700	3,033,178	-0.41
Deferred tax liabilities	179,717	96,932	+85.41
Total liabilities	213,767,458	204,965,187	+4.29
Equity attributable to owners of the Bank			
Share capital	9,980,884	9,977,060	+0.04
Additional equity instruments	5,427,996	5,427,996	—
Reserves	13,430,455	12,529,404	+7.19
Total equity	28,839,335	27,934,460	+3.24
Total liabilities and equity	242,606,793	232,899,647	+4.17

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	Share capital HK\$'000	Additional equity instruments HK\$'000	Goodwill HK\$'000	Share-based payment reserve HK\$'000	Investment reserve HK\$'000	Land and building revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2021	9,977,060	5,427,996	(182)	6,023	47,666	179,633	1,388,500	167,565	603,000	10,137,199	27,934,460
Profit for the period	-	-	-	-	-	-	-	-	-	951,226	951,226
Other comprehensive income	-	-	-	-	279,212	-	-	46,883	-	-	326,095
Total comprehensive income for the period	-	-	-	-	279,212	-	-	46,883	-	951,226	1,277,321
Shares issued under share award scheme	3,824	-	-	-	-	-	-	-	-	-	3,824
Equity settled share-based transaction	-	-	-	(182)	-	-	-	-	-	-	(182)
Distribution payment for additional equity instruments	-	(152,330)	-	-	-	-	-	-	-	-	(152,330)
Transfer from retained profits	-	152,330	-	-	-	-	-	-	-	(152,330)	-
Final dividend paid	-	-	-	-	-	-	-	-	-	(223,758)	(223,758)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	-	-	87,000	(87,000)	-
At 30 June 2021	<u>9,980,884</u>	<u>5,427,996</u>	<u>(182)</u>	<u>5,841</u>	<u>326,878</u>	<u>179,633</u>	<u>1,388,500</u>	<u>214,448</u>	<u>690,000</u>	<u>10,625,337</u>	<u>28,839,335</u>
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)
Shares issued under Share Award Scheme	-	-	-	-	-	-	-	-	-	-	-
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>

The retained profits of the Group included retained profits of HK\$240,488,000 (30 June 2020: retained profits of HK\$168,465,000) 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 2021

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Profit before taxation	1,111,173	864,376
Adjustments for:		
Net interest income	(1,603,068)	(1,462,659)
Net impairment losses on financial assets	241,093	298,375
Net losses on disposal of equipment	1,890	24
Net gains on disposal of financial assets measured at FVOCI	(49,468)	(60,590)
Net (gains) losses on fair value adjustments on investment properties	(11,988)	7,400
Share of profits of associates	(59,371)	(3,170)
Net losses (gains) on fair value hedge	218	(7,128)
Dividend received from investments	(5,655)	(8,503)
Depreciation and amortisation	154,545	137,638
Equity settled share-based payment expenses	3,641	2,143
Exchange adjustments	53,177	(23,390)
Operating cash flows before movements in operating assets and liabilities	(163,813)	(255,484)
(Increase) decrease in operating assets:		
Money at call and short notice with original maturity over three months	13,986	13,155
Placements with banks with original maturity over three months	(112,860)	3,326,435
Financial assets at fair value through profit or loss	484	13,509
Advances to customers	(10,779,942)	(11,027,102)
Advances to banks	869,136	70,598
Other accounts	1,333,999	(1,046,967)
Increase (decrease) in operating liabilities:		
Deposits and balances of banks	(2,860,107)	172,084
Financial assets sold under repurchase agreements	1,715,862	2,039,141
Deposits from customers	12,428,551	6,248,485
Certificates of deposit	(123,763)	(3,671,580)
Derivative financial instruments	(375,266)	(176,751)
Other accounts and accruals	(403,978)	446,948
Cash generated from (used in) operations	1,542,289	(3,847,529)
Hong Kong Profits Tax paid	(47,383)	(650,523)
Overseas tax paid	(50,461)	(48,517)
Interest received	2,281,086	2,645,259
Interest paid	(908,666)	(1,608,813)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	2,816,865	(3,510,123)

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
INVESTING ACTIVITIES		
Interest received on investments in securities	296,946	522,638
Dividends received on investments in securities	5,655	8,503
Dividends received from associates	4,200	2,100
Purchase of financial assets measured at amortised cost	(295,015)	(159,389)
Purchase of financial assets measured at FVOCI	(41,025,077)	(73,877,499)
Purchase of property and equipment	(29,514)	(41,131)
Purchase of intangible assets	(48,418)	(31,734)
Proceeds from redemption of financial assets measured at amortised cost	414,401	160,199
Proceeds from sale and redemption of financial assets measured at FVOCI	34,061,997	74,117,146
Proceeds from disposal of equipment	1,087	1
	<hr/>	<hr/>
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	(6,613,738)	700,834
	<hr/>	<hr/>
FINANCING ACTIVITIES		
Interest paid on loan capital	(17,622)	(97,695)
Payment of lease liabilities	(94,229)	(88,214)
Dividends paid to ordinary shareholders	(223,758)	(398,736)
Distribution paid on additional equity instruments	(152,330)	(88,765)
	<hr/>	<hr/>
NET CASH USED IN FINANCING ACTIVITIES	(487,939)	(673,410)
	<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,284,812)	(3,482,699)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	22,965,025	22,298,698
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 30 JUNE	18,680,213	18,815,999
	<hr/>	<hr/>
Represented by:		
Cash and balances with central bank and banks	12,502,561	5,395,312
Money at call and short notice with original maturity of less than three months	5,610,382	12,117,835
Placements with banks maturing between one to twelve months with original maturity of less than three months	567,270	1,302,852
	<hr/>	<hr/>
	18,680,213	18,815,999
	<hr/>	<hr/>

FINANCIAL REVIEW

For the six months ended 30 June 2021

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 13 August 2021.

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 2020 that is included in the condensed consolidated interim financial information for the six months ended 30 June 2021 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 2020 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 2020, 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.

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 2021

	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	2,345,690	296,072	3,590	1,076	–	2,646,428
Interest expense to external customers	(989,707)	(8,948)	(32)	(44,673)	–	(1,043,360)
Inter-segment interest income (Note 1)	–	–	–	40,228	(40,228)	–
Inter-segment interest expense (Note 1)	(15,342)	(24,886)	–	–	40,228	–
Net interest income	1,340,641	262,238	3,558	(3,369)	–	1,603,068
Fee and commission income	239,919	1,522	91,300	3,681	–	336,422
Fee and commission expenses	(42,706)	(145)	(455)	–	–	(43,306)
Net income from trading and investments	83,144	118,812	24	18,988	–	220,968
Other operating income	67,369	–	340	31,462	–	99,171
Segment revenue						
Total operating income	1,688,367	382,427	94,767	50,762	–	2,216,323
Comprising:						
– Segment revenue from external customers	1,703,709	407,313	94,767	10,534		
– Inter-segment transactions	(15,342)	(24,886)	–	40,228		
Operating expenses	(795,638)	(62,125)	(47,854)	(27,909)	–	(933,526)
Net impairment losses on financial assets	(255,221)	14,135	(5)	(2)	–	(241,093)
Net losses on disposal of equipment	(1,890)	–	–	–	–	(1,890)
Net gains (losses) on fair value adjustments on investment properties	–	–	–	11,988	–	11,988
Segment profit	<u>635,618</u>	<u>334,437</u>	<u>46,908</u>	<u>34,839</u>	<u>–</u>	<u>1,051,802</u>
Share of profits of associates						<u>59,371</u>
Profit before taxation						<u><u>1,111,173</u></u>

Notes:

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

Operating segment assets and liabilities

At 30 June 2021

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	173,862,843	65,852,407	371,865	437,770	240,524,885
Interests in associates					458,763
Unallocated corporate assets					1,623,145
					<u>242,606,793</u>
Consolidated total assets					<u>242,606,793</u>
Liabilities					
Segment liabilities	196,897,190	15,276,754	212,288	169,139	212,555,371
Unallocated corporate liabilities					1,212,087
					<u>213,767,458</u>
Consolidated total liabilities					<u>213,767,458</u>

Other information

Six months ended 30 June 2021

	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	80,668	21	4,630	723	3,220	89,262
Depreciation and amortisation	58,332	1,088	892	3,755	90,478	154,545

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	(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 gains (losses) 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>	<u>–</u>	861,206
Share of profits of associates						<u>3,170</u>
Profit before taxation						<u>864,376</u>

Notes:

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

Operating segment assets and liabilities

At 31 December 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	172,210,814	57,913,566	619,806	175,576	230,919,762
Interests in associates					399,553
Unallocated corporate assets					1,580,332
Consolidated total assets					<u>232,899,647</u>
Liabilities					
Segment liabilities	184,331,347	18,736,234	374,799	166,211	203,608,591
Unallocated corporate liabilities					1,356,596
Consolidated total liabilities					<u>204,965,187</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

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 2021			At 30 June 2021			
	Total operating income	Profit before taxation	Capital expenditure during the period	Total assets	Total liabilities	Total contingent liabilities and commitments	Non-current assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,617,104	741,688	70,410	170,653,424	147,990,546	42,852,846	2,363,158
Mainland China	566,318	363,046	18,815	69,061,686	63,280,967	12,848,650	361,830
Macau and others	32,901	6,439	37	2,891,683	2,495,945	618,975	1,817
Total	2,216,323	1,111,173	89,262	242,606,793	213,767,458	56,320,471	2,726,805

	Six months ended 30 June 2020			At 31 December 2020			
	Total operating income	Profit before taxation	Capital expenditure during the period	Total assets	Total liabilities	Total contingent liabilities and commitments	Non-current assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,470,575	604,093	65,902	170,066,910	147,966,724	35,768,118	2,337,535
Mainland China	453,381	242,297	6,962	59,278,566	53,834,445	10,038,474	329,042
Macau and others	25,871	17,986	1	3,554,171	3,164,018	504,403	3,189
Total	1,949,827	864,376	72,865	232,899,647	204,965,187	46,310,995	2,669,766

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 2021.

	Fair value hierarchy			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
At 30 June 2021				
Financial assets measured at fair value through profit or loss				
Equity securities	112	–	–	112
Debt securities	123,548	–	–	123,548
Financial assets measured at FVOCI				
Equity securities	45,902	–	41,936	87,838
Debt securities	56,365,978	532,135	–	56,898,113
Trade bills	–	7,574,550	–	7,574,550
Derivative financial assets not used for hedging	–	358,366	–	358,366
Derivative financial assets used for hedging	–	75,440	–	75,440
Derivative financial liabilities not used for hedging	–	(307,401)	–	(307,401)
Derivative financial liabilities used for hedging	–	(1,326,588)	–	(1,326,588)
Total	<u>56,535,540</u>	<u>6,906,502</u>	<u>41,936</u>	<u>63,483,978</u>

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 31 December 2020.

	Fair value hierarchy			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
At 31 December 2020				
Financial assets measured at fair value through profit or loss				
Equity securities	91	–	–	91
Debt securities	124,053	–	–	124,053
Financial assets measured at FVOCI				
Equity securities	39,972	–	41,680	81,652
Debt securities	49,736,466	376,811	–	50,113,277
Trade bills	–	5,176,771	–	5,176,771
Derivative financial assets not used for hedging	–	1,559,121	–	1,559,121
Derivative financial assets used for hedging	–	86,329	–	86,329
Derivative financial liabilities not used for hedging	–	(1,539,766)	–	(1,539,766)
Derivative financial liabilities used for hedging	–	(2,235,716)	–	(2,235,716)
Total	49,900,582	3,423,550	41,680	53,365,812

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		Fair value	
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Financial assets				
– measured at amortised cost	2,458,084	2,534,679	2,477,927	2,550,105
Financial liabilities				
– Loan capital	3,020,700	3,033,178	2,966,789	2,956,919

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 values of trade bills classified as FVOCI 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 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.

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets measured at FVOCI HK\$'000
Balance at 1 January 2020	39,884
Exchange difference	1,796
	<hr/>
Balance At 31 December 2020 and 1 January 2021	41,680
Exchange difference	256
	<hr/>
Balance at 30 June 2021	41,936
	<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 2020: 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	
	2021	2020
	HK\$'000	HK\$'000
Interest income		
Balances and placements with central bank and banks	128,460	214,954
Investments in securities	377,311	574,594
Loans and advances	2,140,657	2,209,255
	<u>2,646,428</u>	<u>2,998,803</u>
Interest expense		
Deposits and balances of banks	(76,519)	(102,526)
Deposits from customers	(894,731)	(1,277,686)
Financial assets sold under repurchase agreements	(21,879)	(29,956)
Certificates of deposit	(5,936)	(25,100)
Loan capital in issue	(36,308)	(92,023)
Lease liabilities	(7,987)	(8,853)
	<u>(1,043,360)</u>	<u>(1,536,144)</u>
Net interest income	<u>1,603,068</u>	<u>1,462,659</u>
Included within interest income		
Interest income on impaired loans and advances	<u>3,690</u>	<u>4,625</u>

Included within interest income and interest expense are HK\$2,646,428,000 (2020: HK\$2,998,803,000) and HK\$1,043,360,000 (2020: HK\$1,536,144,000) 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\$377,311,000 (2020: HK\$574,594,000).

NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Fee and commission income		
Securities dealings	94,334	70,323
Loans, overdrafts and guarantees	120,402	71,095
Trade finance	6,213	6,932
Credit card services	45,906	40,175
Agency services	59,692	51,852
Others	9,875	8,243
	<hr/>	<hr/>
Total fee and commission income	336,422	248,620
Less: Fee and commission expenses	(43,306)	(39,014)
	<hr/>	<hr/>
	293,116	209,606
	<hr/> <hr/>	<hr/> <hr/>
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	99,757	96,252
– Fee expenses	(40,100)	(36,307)
	<hr/>	<hr/>
	59,657	59,945
	<hr/> <hr/>	<hr/> <hr/>

NET INCOME FROM TRADING AND INVESTMENTS

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Foreign exchange gains	158,594	127,424
Net gains on financial instruments at fair value through profit or loss	13,124	2,238
Net (losses) gains on fair value hedge	(218)	7,128
Net gains on disposal of financial assets at FVOCI		
– Debt securities	49,468	60,590
	<hr/>	<hr/>
	220,968	197,380
	<hr/> <hr/>	<hr/> <hr/>

“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”.

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	
	2021 HK\$'000	2020 HK\$'000
Dividend income		
– Listed investments	3,200	5,648
– Unlisted investments	2,455	2,855
	5,655	8,503
Gross rents from investment properties	3,976	4,494
Less: Outgoings	(228)	(196)
Net rental income	3,748	4,298
Safe deposit box rentals	29,558	27,737
Net insurance income (<i>Note</i>)	8,682	8,028
Other banking services income	50,503	28,677
Others	1,025	2,939
	<u>99,171</u>	<u>80,182</u>

Note: Details of net insurance income are as follows:

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Gross insurance premium income	19,450	20,127
Reinsurers' share of gross insurance premium income	(6,000)	(5,856)
	13,450	14,271
Decrease in gross outstanding claims	2,378	5,220
Gross claim paid	(9,905)	(10,937)
	(7,527)	(5,717)
Decrease in recoverable from reinsurance of outstanding claims	(119)	(4,573)
Reinsurance claims recoveries	1,795	2,433
	1,676	(2,140)
Net insurance commission income	1,083	1,614
	<u>8,682</u>	<u>8,028</u>

OPERATING EXPENSES

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Auditor's remuneration	4,019	3,808
Staff costs (including directors' emoluments)		
– Salaries and other costs	562,399	474,277
– Retirement benefits scheme contributions	32,734	24,986
– Equity settled share-based payment	3,641	2,143
– Capitalised to intangible assets	(17,926)	(26,776)
Total staff costs	580,848	474,630
Depreciation		
– Property and equipment	41,564	39,967
– Right-of-use assets	101,873	100,098
– Government grants (<i>Note</i>)	(4,229)	(4,534)
	139,208	135,531
Amortisation of intangible assets	15,337	2,107
Premises and equipment expenses, excluding depreciation		
– Rentals and rates for premises	5,159	4,151
– Expenses relating to short-term leases	360	1,450
– Expenses relating to leases of low-value assets	17	25
– Capitalised to intangible assets	(1,172)	(1,345)
– Others	3,841	5,874
	8,205	10,155
Other operating expenses	186,618	157,337
– Capitalised to intangible assets	(709)	(746)
	185,909	156,591
	933,526	782,822

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	
	2021 HK\$'000	2020 HK\$'000
Loans and advances to customers	255,036	203,434
Short-term funds and placement with banks	1,114	8,740
Investment in securities	(12,422)	77,826
Loan commitments and financial guarantees	(2,635)	8,375
	241,093	298,375

TAXATION

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax	50,903	102,436
Overseas taxation	74,591	22,661
Deferred tax	34,453	24,314
	<u>159,947</u>	<u>149,411</u>

Hong Kong Profits Tax is calculated at 16.5% (2020: 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\$951,226,000 (2020: HK\$714,965,000) with deduction of distribution payment for additional equity instruments of HK\$152,330,000 (2020: HK\$88,765,000) and on the weighted average number of outstanding ordinary shares during the period, calculated as follows:

Weighted average number of ordinary shares

	2021 Number of shares (thousands)	2020 Number of shares (thousands)
Issued ordinary shares at 1st January	972,526	972,526
Effect of issuance of award shares	199	–
Weighted average number of ordinary shares at 30 June/31 December	<u>972,725</u>	<u>972,526</u>

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

DIVIDENDS

On 8 June 2021, a dividend of HK\$0.23 per share totalling HK\$223,758,000 was paid to shareholders as the final dividend for 2020.

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.

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 2021 of HK\$107,015,000 (2020: HK\$106,978,000) at a rate of HK\$0.11 (2020: HK\$0.11) per share should be paid to the shareholders of the Bank whose names appear on the Register of Members on 7 September 2021.

CASH AND SHORT-TERM FUNDS

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Cash and balances with central bank and banks	12,502,561	17,202,817
Money at call and short notice	5,622,396	4,597,826
	<u>18,124,957</u>	<u>21,800,643</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\$410,901,000 (31 December 2020: HK\$304,420,000).

DERIVATIVE FINANCIAL INSTRUMENTS

	Notional amount HK\$'000	30 June 2021 Fair value	
		Assets	Liabilities
		HK\$'000	HK\$'000
Derivatives held for trading			
– Foreign currency forward contracts and swaps	143,465,498	281,596	240,296
– Foreign currency options	8,973,366	7,022	6,975
– Interest rate swaps	28,739,603	69,748	60,130
– Futures	–	–	–
Derivatives designated as hedging instruments			
– Interest rate swaps	15,040,170	75,440	1,326,588
		<u>433,806</u>	<u>1,633,989</u>

	Notional amount HK\$'000	31 December 2020 Fair value	
		Assets	Liabilities
		HK\$'000	HK\$'000
Derivatives held for trading			
– Foreign currency forward contracts and swaps	150,099,831	1,441,027	1,424,876
– Foreign exchange options	3,479,630	16,436	16,423
– Interest rate swaps	51,333,581	101,658	98,269
– Futures	22,022,296	–	198
Derivatives designated as hedging instruments			
– Interest rate swaps	32,243,316	86,329	2,235,716
		<u>1,645,450</u>	<u>3,775,482</u>

As at 30 June 2021, all foreign currency forward contracts have settlement dates within five years (2020: five years) from the end of the reporting period.

INTERBANK OFFERED RATES (“IBORS”) TRANSITION

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, amortised cost and subordinated note issued. The notional amounts of interest rate swaps designated in hedge accounting relationship exposed to different IBORs as at 30 June 2021 approximately HK\$22 billion (31 December 2020 is approximately HK\$31 billion). The Group has closely monitored the market progress on the transition of IBORs to risk-free interest rates.

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 2021				
Equity securities	112	87,838	–	87,950
Debt securities	123,548	56,898,113	2,458,084	59,479,745
	<u>123,660</u>	<u>56,985,951</u>	<u>2,458,084</u>	<u>59,567,695</u>
31 December 2020				
Equity securities	91	81,652	–	81,743
Debt securities	124,053	50,113,277	2,534,679	52,772,009
	<u>124,144</u>	<u>50,194,929</u>	<u>2,534,679</u>	<u>52,853,752</u>

TRANSFER OF FINANCIAL ASSETS

The following were the Group’s debt securities and trade bills classified as financial assets measured at FVOCI as at 30 June 2021 and 31 December 2020 that were transferred to other entities with terms to repurchase these debt securities and trade bills at agreed dates and prices. As the Group has retained substantially all the risks and rewards relating to these debt securities and trade bills, the full carrying amount of these debt securities and trade bills 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 and trade bills are transferred to the counterparty entities and there is no restriction for the counterparty entities to sell or repledge the collateral. These debt securities and trade bills are measured at fair value in the condensed consolidated statement of financial position.

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Carrying amount of transferred assets	2,617,594	817,681
Carrying amount of associated liabilities	2,502,402	786,540

ADVANCES AND OTHER ACCOUNTS

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Advances to customers		
Bills receivable	873,191	1,167,499
Trade bills measured at		
– Amortised cost	239,358	386,957
– FVOCI	7,574,550	5,176,771
	7,813,908	5,563,728
Other advances to customers	144,460,853	135,650,390
	153,147,952	142,381,617
Interest receivable	766,033	770,942
Impairment allowances		
– Stage 1	(438,922)	(428,285)
– Stage 2	(96,845)	(108,518)
– Stage 3	(584,821)	(342,486)
	(1,120,588)	(879,289)
	152,793,397	142,273,270
Advances to banks	234,273	1,103,409
Other accounts		
– Deposit placed as mandatory reserve fund (<i>Note 1</i>)	5,248,633	4,854,012
– Initial and variation margin (<i>Note 2</i>)	856,421	1,473,594
– Others	1,465,752	2,578,807
	7,570,806	8,906,413
	160,598,476	152,283,092

Note 1: Balance mainly represented mandatory reserve deposits placed by Mainland Branches with the People's Bank of China which is not available for the Group's daily operation.

Note 2: Balance mainly represented deposits placed in banks as initial and variation margin for certain interest margin, foreign currency forward contracts and repurchase agreements.

Details of the impaired loans are as follows:

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Gross impaired loans	884,966	922,476
Less: Impairment allowances under stage 3	(584,821)	(342,486)
Net impaired loans	<u>300,145</u>	<u>579,990</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.58%</u>	<u>0.65%</u>
Market value of collateral pledged	<u>367,864</u>	<u>341,551</u>

Details of the non-performing loans are as follows:

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Gross non-performing loans (<i>Note</i>)	882,505	919,596
Less: Impairment allowances under stage 3	(584,821)	(342,486)
Net non-performing loans	<u>297,684</u>	<u>577,110</u>
Gross non-performing loans as a percentage of gross advances to customers	<u>0.58%</u>	<u>0.65%</u>
Market value of collateral pledged	<u>358,311</u>	<u>322,203</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

	2021 HK\$'000	2020 HK\$'000
At 1 January	299,513	306,610
Net increase (decrease) in fair value recognised in the profit or loss	11,988	(10,300)
Exchange adjustments	455	3,203
	<u>311,956</u>	<u>299,513</u>
At 30 June/31 December	<u>311,956</u>	<u>299,513</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 as at 30 June 2021 and 31 December 2020 by Vigers Appraisal and Consulting Limited, independent professional qualified valuer. The fair value of investment properties is determined by adopting the direct comparison approach and income approach. Under direct comparison approach, the fair value is determined by reference to actual sales transactions of comparable properties with similar character and location. Under income approach, the fair value is determined by reference to the value of income, cash flow or cost savings generated by the assets.

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.

Investment properties are classified as Level 3 under fair value hierarchy as at 30 June 2021 and 31 December 2020. 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 2021	345,225	112,687	926,152	919,695	2,303,759
Additions	–	–	73,696	29,514	103,210
Disposals	–	–	–	(23,055)	(23,055)
Expiration/termination of lease contract	–	–	(62,797)	–	(62,797)
Exchange adjustments	–	545	8,736	2,016	11,297
At 30 June 2021	<u>345,225</u>	<u>113,232</u>	<u>945,787</u>	<u>928,170</u>	<u>2,332,414</u>
ACCUMULATED DEPRECIATION					
At 1 January 2021	106,751	41,420	376,742	683,628	1,208,541
Depreciation	3,917	1,387	101,873	36,260	143,437
Eliminated on disposals	–	–	–	(20,077)	(20,077)
Expiration/termination of lease contract	–	–	(62,797)	–	(62,797)
Exchange adjustments	–	208	8,301	1,234	9,743
At 30 June 2021	<u>110,668</u>	<u>43,015</u>	<u>424,119</u>	<u>701,045</u>	<u>1,278,847</u>
CARRYING AMOUNTS					
At 30 June 2021	<u>234,557</u>	<u>70,217</u>	<u>521,668</u>	<u>227,125</u>	<u>1,053,567</u>
At 1 January 2021	<u>238,474</u>	<u>71,267</u>	<u>549,410</u>	<u>236,067</u>	<u>1,095,218</u>
COST					
At 1 January 2020	345,225	112,415	770,250	894,247	2,122,137
Additions	–	–	157,758	94,136	251,894
Disposals	–	–	(1,862)	(82,517)	(84,379)
Exchange adjustments	–	272	6	13,829	14,107
At 31 December 2020	<u>345,225</u>	<u>112,687</u>	<u>926,152</u>	<u>919,695</u>	<u>2,303,759</u>
ACCUMULATED DEPRECIATION					
At 1 January 2020	98,917	38,595	173,868	686,506	997,886
Depreciation	7,834	2,763	202,873	69,836	283,306
Eliminated on disposals	–	–	–	(81,769)	(81,769)
Exchange adjustments	–	62	1	9,055	9,118
At 31 December 2020	<u>106,751</u>	<u>41,420</u>	<u>376,742</u>	<u>683,628</u>	<u>1,208,541</u>
CARRYING AMOUNTS					
At 31 December 2020	<u>238,474</u>	<u>71,267</u>	<u>549,410</u>	<u>236,067</u>	<u>1,095,218</u>
At 1 January 2020	<u>246,308</u>	<u>73,820</u>	<u>596,382</u>	<u>207,741</u>	<u>1,124,251</u>

INTANGIBLE ASSETS

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Internally developed software and software	822,569	789,677
Club Membership	14,090	14,090
Goodwill	39,606	39,606
	<u>876,265</u>	<u>843,373</u>

FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Analysed by collateral type:		
Debt securities classified as financial assets at FVOCI	1,434,184	786,540
Trade bills measured at FVOCI	1,068,218	–
	<u>2,502,402</u>	<u>786,540</u>

As at 30 June 2021, debt securities which are classified as financial assets at FVOCI and trade bills with carrying amounts of HK\$1,552,217,000 (31 December 2020: HK\$817,681,000) and HK\$1,065,377,000 (31 December 2020: nil), respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months (31 December 2020: within 12 months) from the end of the reporting period.

DEPOSITS FROM CUSTOMERS

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Demand deposits and current accounts	20,235,714	17,426,489
Savings deposits	58,594,766	50,703,560
Time, call and notice deposits	116,826,362	115,098,242
	<u>195,656,842</u>	<u>183,228,291</u>

OTHER ACCOUNTS AND ACCRUALS

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Accrued interest	1,380,818	1,281,380
Lease liabilities	487,369	506,593
Others	1,040,523	1,453,835
	<u>2,908,710</u>	<u>3,241,808</u>

CERTIFICATES OF DEPOSIT

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Certificates of deposit, measured at amortised cost	<u>2,427,767</u>	<u>2,551,530</u>

LOAN CAPITAL

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Subordinated notes, at amortised cost with fair value hedge adjustments US\$383 million fixed rate subordinated note due 2027 (<i>Notes (a) & (b)</i>)	<u>3,020,700</u>	<u>3,033,178</u>

Notes:

- (a) 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”). The Note is 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 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 have been listed on the Stock Exchange of Hong Kong under stock code of 05249 on 27 July 2017.
- (b) 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	
	2021 HK\$'000	2020 HK\$'000
At 1 January	3,033,178	4,579,912
Changes from financing cash flows:		
Interest paid on loan capital	<u>(17,622)</u>	<u>(97,695)</u>
	3,015,556	4,482,217
Exchange adjustments	5,545	(21,342)
Fair value hedge adjustments	(22,349)	86,431
Other changes		
Interest expense	36,308	92,023
Other non-cash movements	(14,360)	8,647
Total other changes	<u>21,948</u>	<u>100,670</u>
At 30 June	<u>3,020,700</u>	<u>4,647,976</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 2021 HK\$'000	31 December 2020 HK\$'000
Deferred tax assets	26,254	32,109
Deferred tax liabilities	(179,717)	(96,932)
	<u>(153,463)</u>	<u>(64,823)</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 2021	(128,981)	78,326	(19,080)	11,022	(6,110)	(64,823)
Charge to the income statement for the period	(2,424)	(24,485)	(7,544)	—	—	(34,453)
(Charge) credit to other comprehensive income for the period	—	—	—	(53,971)	—	(53,971)
Exchange adjustments	—	—	(216)	—	—	(216)
At 30 June 2021	<u>(131,405)</u>	<u>53,841</u>	<u>(26,840)</u>	<u>(42,949)</u>	<u>(6,110)</u>	<u>(153,463)</u>
At 1 January 2020	(119,387)	83,731	(18,142)	(58,258)	(4,424)	(116,480)
Charge to the income statement for the period	(9,594)	(5,405)	—	—	—	(14,999)
(Charge) Credit to other comprehensive income for the period	—	—	—	69,280	(1,686)	67,594
Exchange adjustments	—	—	(938)	—	—	(938)
At 31 December 2020	<u>(128,981)</u>	<u>78,326</u>	<u>(19,080)</u>	<u>11,022</u>	<u>(6,110)</u>	<u>(64,823)</u>

SHARE CAPITAL

	2021		2020	
	Number of shares (thousands)	Share capital HK\$'000	Number of shares (thousands)	Share capital HK\$'000
Ordinary shares, issued and fully paid:				
At 1 January	972,526	9,977,060	972,526	9,977,060
Shares issued under share award scheme	336	3,824	—	—
At 30 June/31 December	<u>972,862</u>	<u>9,980,884</u>	<u>972,526</u>	<u>9,977,060</u>

ADDITIONAL EQUITY INSTRUMENTS

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
US\$400 million undated non-cumulative subordinated capital securities (<i>Note (a)</i>)	3,111,315	3,111,315
US\$300 million undated non-cumulative subordinated capital securities (<i>Note (b)</i>)	2,316,681	2,316,681
	<u>5,427,996</u>	<u>5,427,996</u>

Notes:

- (a) 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 (2020: US\$11,400,000) (equivalent to HK\$88,368,000 (2020: HK\$88,765,000)) was paid to the securities holders.

- (b) On 3 August 2020, the Bank issued undated non-cumulative subordinated Additional Tier 1 Capital Securities with a face value of US\$300 million (equivalent to HK\$2,316,681,000 net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.500% coupon until the first call date on 3 August 2025. 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 5.237% 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\$8,250,000 (2020: nil) equivalent to HK\$63,962,000 (2020: 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 2021								
Assets								
Cash and short-term funds	11,851,327	5,916,641	134,730	222,259	—	—	—	18,124,957
Placements with banks	—	—	590,270	377,581	—	—	—	967,851
Derivative financial instruments	42,811	157,825	19,550	66,594	132,486	14,540	—	433,806
Financial assets at fair value through profit or loss	—	—	—	—	—	123,548	112	123,660
Financial assets measured at FVOCI	3,261,784	8,678,698	3,201,589	12,678,012	21,200,268	7,877,762	87,838	56,985,951
Financial assets measured at amortised cost	—	1,555	120,963	357,344	1,976,222	2,000	—	2,458,084
Advances to customers	2,952,774	10,887,710	14,607,920	39,679,922	64,746,909	19,889,061	383,656	153,147,952
Advances to banks	—	234,273	—	—	—	—	—	234,273
Other financial assets	5,673,843	274,473	663,613	202,418	—	—	401,904	7,216,251
Total financial assets	23,782,539	26,151,175	19,338,635	53,584,130	88,055,885	27,906,911	873,510	239,692,785
Liabilities								
Deposits and balances of banks	379,391	898,470	1,366,428	2,725,178	—	—	—	5,369,467
Financial assets sold under repurchase agreements	719,831	1,782,571	—	—	—	—	—	2,502,402
Deposits from customers	83,020,486	39,079,843	42,711,413	20,223,602	10,621,498	—	—	195,656,842
Derivative financial instruments	39,963	104,753	29,719	122,318	803,644	533,592	—	1,633,989
Certificates of deposit	—	—	—	2,427,767	—	—	—	2,427,767
Loan capital	—	—	—	—	—	3,020,700	—	3,020,700
Lease liabilities	—	14,214	28,959	106,919	252,948	84,329	—	487,369
Other financial liabilities	262,831	135,935	410,564	548,558	400,853	1,470	661,130	2,421,341
Total financial liabilities	84,422,502	42,015,786	44,547,083	26,154,342	12,078,943	3,640,091	661,130	213,519,877
Net position – total financial assets and liabilities	(60,639,963)	(15,864,611)	(25,208,448)	27,429,788	75,976,942	24,266,820	212,380	26,172,908
Of which debt securities included in:								
FVOCI	3,261,784	8,678,698	3,201,589	12,678,012	21,200,268	7,877,762	—	56,898,113
Amortised cost	—	1,555	120,963	357,344	1,976,222	2,000	—	2,458,084
	3,261,784	8,680,253	3,322,552	13,035,356	23,176,490	7,879,762	—	59,356,197

	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 2020								
Assets								
Cash and short-term funds	16,384,663	4,942,360	328,846	144,774	—	—	—	21,800,643
Placements with banks	—	—	1,333,326	144,777	—	—	—	1,478,103
Derivative financial instruments	—	1,103,199	56,678	292,615	169,530	23,428	—	1,645,450
Financial assets at fair value through profit or loss	—	—	1,351	—	—	122,702	91	124,144
Financial assets measured at FVOCI	—	3,633,151	2,956,528	7,100,505	23,761,252	12,661,841	81,652	50,194,929
Financial assets measured at amortised cost	—	—	72,829	357,025	2,104,825	—	—	2,534,679
Advances to customers	1,989,771	8,181,099	14,305,816	36,573,981	57,887,023	22,120,248	1,323,679	142,381,617
Advances to banks	—	1,103,409	—	—	—	—	—	1,103,409
Other financial assets	6,059,657	197,397	939,865	1,288,129	674	—	312,344	8,798,066
Total financial assets	24,434,091	19,160,615	19,995,239	45,901,806	83,923,304	34,928,219	1,717,766	230,061,040
Liabilities								
Deposits and balances of banks	637,828	3,458,282	2,239,456	1,894,008	—	—	—	8,229,574
Financial assets sold under repurchase agreements	—	778,562	7,978	—	—	—	—	786,540
Deposits from customers	65,152,855	51,856,834	36,939,804	18,896,130	10,382,668	—	—	183,228,291
Derivative financial instruments	—	1,088,850	66,524	309,739	1,094,416	1,215,953	—	3,775,482
Certificates of deposit	—	—	130,006	2,421,524	—	—	—	2,551,530
Loan capital	—	—	—	—	—	3,033,178	—	3,033,178
Lease liabilities	—	15,453	31,427	119,326	267,384	73,003	—	506,593
Other financial liabilities	885,754	47,064	361,289	205,832	73,672	—	1,161,604	2,735,215
Total financial liabilities	66,676,437	57,245,045	39,776,484	23,846,559	11,818,140	4,322,134	1,161,604	204,846,403
Net position – total financial assets and liabilities	(42,242,346)	(38,084,430)	(19,781,245)	22,055,247	72,105,164	30,606,085	556,162	25,214,637
Of which debt securities included in:								
FVOCI	—	3,633,151	2,956,528	7,100,505	23,761,252	12,661,841	—	50,113,277
Amortised cost	—	—	72,829	357,025	2,104,825	—	—	2,534,679
	—	3,633,151	3,029,357	7,457,530	25,866,077	12,661,841	—	52,647,956

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	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ultimate holding company	<u>14</u>	<u>5</u>	<u>15,867</u>	<u>12,248</u>
Intermediate holding company	<u>315</u>	<u>2,961</u>	<u>2,352</u>	<u>4,767</u>
Fellow subsidiaries	<u>32,761</u>	<u>23,029</u>	<u>77,233</u>	<u>56,324</u>
Associates	<u>24,886</u>	<u>34,696</u>	<u>10,657</u>	<u>13,116</u>
Key management personnel (<i>Note 1</i>)	<u>2,583</u>	<u>313</u>	<u>1,718</u>	<u>851</u>

During the period, the Group had net trading income with intermediate holding company and fellow subsidiary of HK\$56,888,000 (2020: Net trading income HK\$1,019,000).

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 2021	31 December 2020	30 June 2021	31 December 2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ultimate holding company	<u>–</u>	<u>–</u>	<u>4,131,331</u>	<u>1,018,913</u>
Intermediate holding company	<u>–</u>	<u>200,000</u>	<u>1,714,416</u>	<u>278,595</u>
Fellow subsidiaries	<u>1,410,467</u>	<u>1,109,070</u>	<u>4,355,550</u>	<u>6,931,486</u>
Associates	<u>–</u>	<u>–</u>	<u>463,169</u>	<u>295,693</u>
Key management personnel (<i>Note 1</i>)	<u>916,750</u>	<u>636,461</u>	<u>725,185</u>	<u>896,483</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.

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	
	2021 HK\$'000	2020 HK\$'000
Short-term benefits	112,999	100,099
Post employment benefits	8,683	6,210
Share-based payment	4,447	2,128
	<u>126,129</u>	<u>108,437</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 2020 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

According to the HKFRS 9, expected credit loss is expected to be assessed over a range of economic scenarios, being an unbiased and probability weighted amount. The outbreak of COVID-19 caused significant changes in global economic environment including a sharp contraction in 2020. In order to accommodate the possible economic downturn in the near-middle term due to COVID-19, the Group has extended a macroeconomic scenario "COVID-19" in addition to Good, Base and Bad scenarios since 31 December 2020.

The probability weighting was assigned as 5%, 40%, 20% and 35% to the Good, Base, Bad and COVID-19 scenarios, respectively. As the uncertainties brought by the pandemic affects the pace of the economic recovery, the Group maintained the probability weighting unchanged during the reporting period.

The key assumptions used for ECL estimates are set out below:

	Scenario	June 2021	December 2020
Hong Kong Forecast Factors			
GDP YoY Change %	Base	4.35%	7.68%
	Good	6.82%	11.42%
	Bad	-2.28%	-2.61%
	COVID-19	-8.00%	-8.00%
Mainland China Forecast Factors			
GDP QoQ Change %	Base	1.25%	0.70%
	Good	2.19%	1.76%
	Bad	-1.57%	-2.57%
	COVID-19	-1.55%	-1.55%

The Group will review the critical assumptions from time to time to reflect the outlook of the economy.

NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

According to the announcement jointly issued by the Bank and Yue Xiu Enterprises (Holdings) Limited (the “Offeror”), an intermediate holding company, on 18 May 2021 in relation to the proposal for the privatisation of the Bank by the Offeror by way of a scheme of arrangement (the “Scheme”) and for the withdrawal of listing of the shares of the Bank on the Stock Exchange (the “Proposal”), and the proposal for the Offeror to make an offer to cancel all outstanding share awards held by each outstanding share award holder. Upon approval and implementation of the Proposal, the Offeror will pay to each scheme Shareholder a cancellation price of HK\$20.80 per scheme share in cash for the cancellation and extinguishment of such scheme shares. Under the share award offer, which will become unconditional immediately upon the Scheme becoming effective, each outstanding share award holder will receive a share award offer price of HK\$20.80 per outstanding share award in cash for the cancellation of such outstanding share award(s). Upon the Scheme becoming effective, the listing of the Bank’s shares on the Stock Exchange will be withdrawn.

OTHER FINANCIAL INFORMATION

To comply with the Banking (Disclosure) Rules, the Bank 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 2021 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 2021 will be available on the website of the Bank in September 2021.

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 2021, 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 2021.

INTERIM DIVIDEND

The Board has declared an interim cash dividend for 2021 of HK\$0.11 per share, payable on Thursday, 7 October 2021, to the shareholders whose names appear on the register of members of the Bank on Tuesday, 7 September 2021 (2020: interim cash dividend: HK\$0.11 per share paid on 15 October 2020).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Bank will be closed on Tuesday, 7 September 2021 and no transfer of shares can be registered. In order to qualify for the 2021 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 p.m. (Hong Kong time) on Monday, 6 September 2021.

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 2021.

PUBLICATION OF 2021 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 2021 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 2021.

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

Hong Kong, 13 August 2021

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 Lee Ka Lun and Mr Yu Lup Fat Joseph.