

2020 ANNUAL REPORT



 **創興銀行有限公司**
Chong Hing Bank Limited

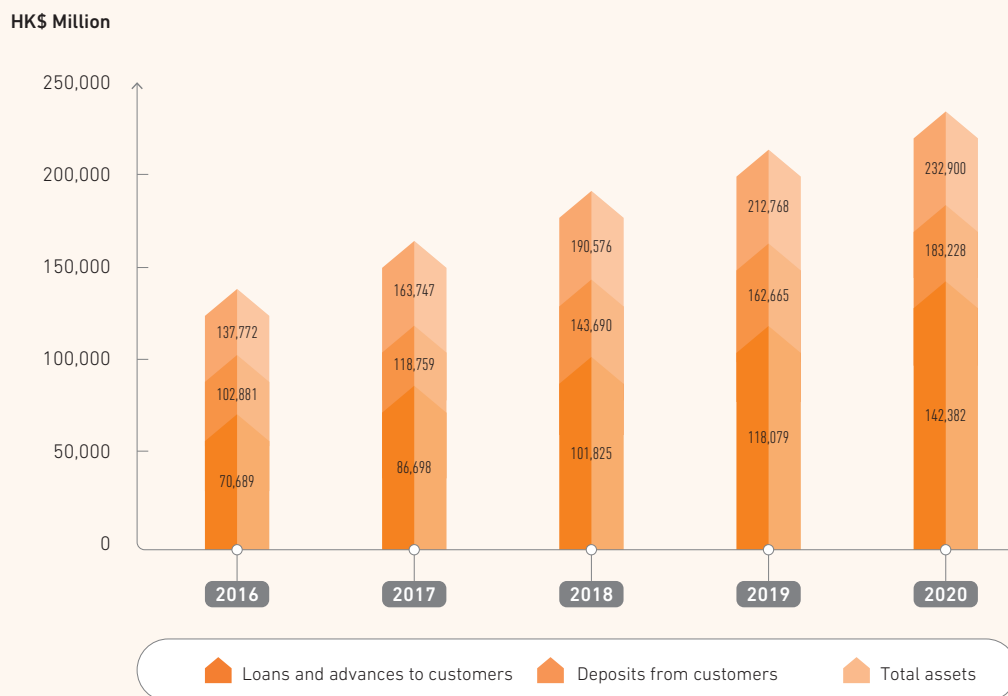
Stock Code : 1111

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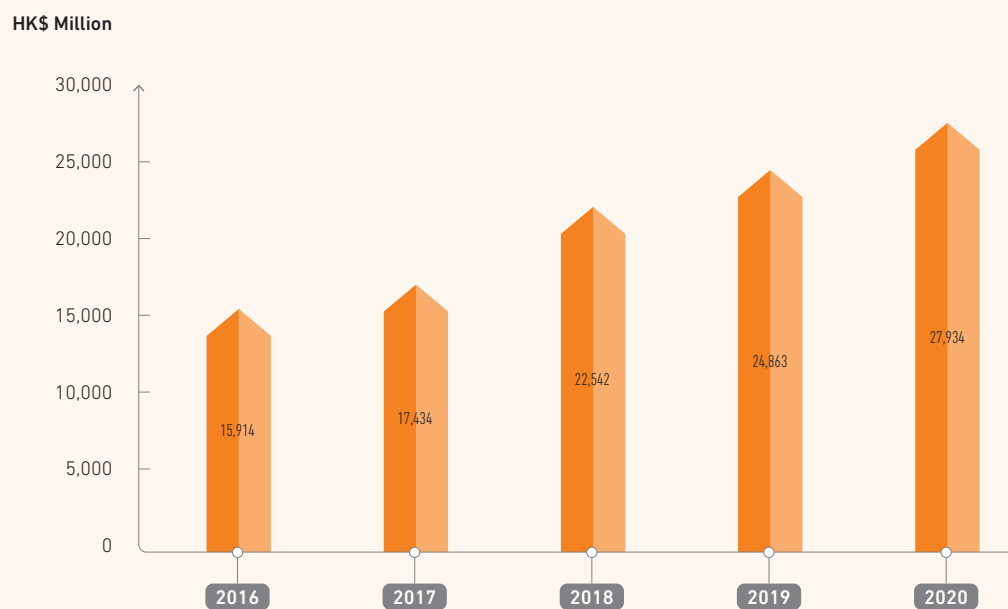
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FINANCIAL SUMMARY

LOANS AND ADVANCES TO CUSTOMERS / DEPOSITS FROM CUSTOMERS / TOTAL ASSETS

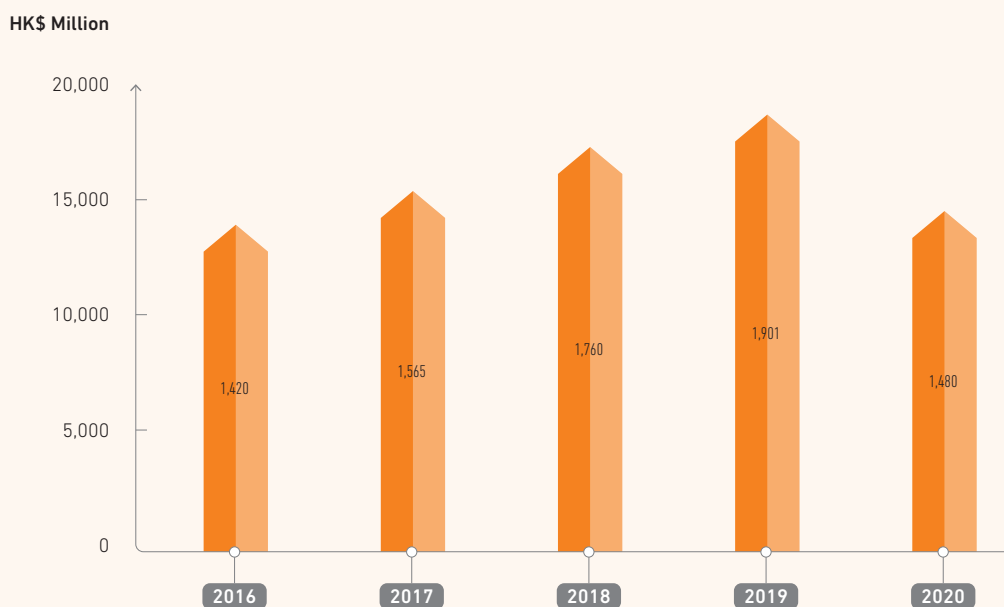


TOTAL EQUITY



FINANCIAL SUMMARY

PROFIT ATTRIBUTABLE TO EQUITY OWNERS



FINANCIAL SUMMARY

	2016	2017	2018	2019	2020
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Loans and advances to customers	70,689	86,698	101,825	118,079	142,382
Deposits from customers	102,881	118,759	143,690	162,665	183,228
Total assets	137,772	163,747	190,576	212,768	232,900
Total liabilities	121,858	146,313	168,033	187,905	204,965
Total equity	15,914	17,434	22,542	24,863	27,934
Profit attributable to equity owners	1,420	1,565	1,760	1,901	1,480

CORPORATE INFORMATION

as of 4 March 2021

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

BOARD COMMITTEES

AUDIT COMMITTEE

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

CONNECTED PARTY TRANSACTIONS COMMITTEE

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

INFORMATION TECHNOLOGY STRATEGY COMMITTEE

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

NOMINATION AND REMUNERATION COMMITTEE

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

RISK COMMITTEE

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

SENIOR MANAGEMENT

Mr TANG Xianqing (*Deputy Chief Executive*)
Mr CHIU Tak Wah Edward (*Chief Operating Officer and Alternate Chief Executive*)
Mr CHAN Kam Ki Vincent (*Chief Financial Officer*)
Mr WOO Pak Kin Clement (*Chief Risk Officer*)
Ms CHAN Yun Ling (*Head of Treasury and Markets*)
Mr SIN Tat Wo (*Head of Mainland Corporates Division and Acting Head of Hong Kong Corporates Division*)
Ms LAM Pik Ha Eliza (*Head of Financial Institutions Division*)
Ms NG Sau Wai Sylvia (*Head of Personal Banking Division*)
Mr WONG Kwok Leung Arthur (*Chief Information Officer*)
Ms LAI Wing Nga (*Company Secretary*)

CORPORATE INFORMATION

as of 4 March 2021

REGISTERED OFFICE

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



Chong Hing Bank's website access code

PRINCIPAL LEGAL ADVISERS

Deacons
Kwan & Chow
Mayer Brown JSM

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

STOCK CODES AND SHORT NAMES

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 4 March 2021

BOARD OF DIRECTORS



EXECUTIVE DIRECTORS

Mr ZONG Jianxin

aged 54, was appointed Deputy Managing Director and Head of Mainland Business Division of the Bank in May 2015 and ceased to act as Deputy Managing Director in May 2018. Mr Zong has been appointed an Executive Director, the Chief Executive and the Deputy Chairman of the Bank since September 2015, April 2017 and May 2018, respectively. He also acted as Alternate Chief Executive of the Bank from May 2016 to April 2017. Mr Zong has been appointed an Executive Director of Yuexiu Financial Holdings Limited (the immediate holding company of the Bank) ("Yuexiu Financial Holdings") since November 2015 and the Deputy Chairman and the Chief Executive of Yuexiu Financial Holdings since May 2018. He acted as Alternate Chief Executive of Yuexiu Financial Holdings from June 2016 to May 2018. He has been a Director and the Chief Executive of Chong Hing Finance Limited (a wholly-owned subsidiary of the Bank) since August 2017. Mr Zong has more than 20 years of banking experience, specialising in corporate banking, international business and investment banking business. He was an Executive Director and Alternate Chief Executive of Industrial and Commercial Bank of China (Asia) Limited ("ICBC Asia") from October 2010 to May 2015, and was also a Director of various subsidiaries of ICBC Asia from December 2010 to May 2015. Mr Zong held various positions in Industrial and Commercial Bank of China Limited, Shenzhen Branch from October 1999 to December 2009, with his last position as the Vice President. Mr Zong holds a Master Degree in Business Administration awarded by Shanghai Jiao Tong University.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 4 March 2021

Mr LAU Wai Man

aged 62, has been appointed an Executive Director of the Bank since August 2001 and was appointed as Deputy Managing Director in May 2016, and such title was changed to Deputy Chief Executive of the Bank in May 2018. Mr Lau also acts as Alternate Chief Executive of the Bank and Chong Hing Finance Limited (a wholly-owned subsidiary of the Bank). He has been an Executive Director and Alternate Chief Executive of Yuexiu Financial Holdings Limited (the immediate holding company of the Bank) since February 2014 and appointed as Deputy Chief Executive since May 2018. Mr Lau is also a Director of various subsidiaries of the Bank. Mr Lau holds a Bachelor of Law degree and a Master of Business Administration degree. He is a Vice President of the Council of the Hong Kong Institute of Bankers, a Certified Financial Planner^{CM} and a member of the Hong Kong Institute of Certified Public Accountants. He was a fellow of the Association of Chartered Certified Accountants and a senior associate of the Australian Institute of Bankers. Mr Lau joined the Bank as the Chief Auditor in 1988, and was Deputy Chief Executive Officer from July 2007 to March 2013 and Chief Executive Officer from March 2013 to May 2016. Before joining the Bank, he had worked for an international bank and a global accounting firm.

NON-EXECUTIVE DIRECTORS

Mr ZHANG Zhaoxing

aged 57, has been appointed the Chairman and a Non-executive Director of the Bank since February 2014. Mr Zhang is the Chairman of 廣州越秀集團股份有限公司 (formerly known as 廣州越秀集團有限公司) (Guangzhou Yue Xiu Holdings Limited*) and Yue Xiu Enterprises (Holdings) Limited ("YX Enterprises"). Mr Zhang holds an Executive Master of Business Administration degree awarded by Huazhong University of Science and Technology and possesses the qualification of senior accountant in China. He has extensive experience in the financial management, industrial operation, capital operation and corporate culture development of large enterprises. Prior to joining YX Enterprises in 2008, Mr Zhang was the Director and General Manager of Guangzhou Radio Group Co., Ltd., Chairman and General Manager of Haihua Electronics Enterprise (China) Corporation, Chairman of Guangzhou Guangdian Real Estate Development Co., Ltd. and a Director of GRG Banking Equipment Co., Ltd. (Stock Code: 002152), a company listed on the Shenzhen Stock Exchange. Mr Zhang was also an Executive Director, the Vice Chairman and the Chairman (appointed since July 2013) of Yuexiu Property Company Limited (Stock Code: 00123) from July 2008 to August 2018, a company listed on the Stock Exchange, and General Manager from July 2008 to March 2014. Mr Zhang is a deputy to the 12th National People's Congress of the People's Republic of China.

Mr LI Feng

aged 52, has been a Non-executive Director of the Bank since February 2014. Mr Li is the Chief Capital Officer of 廣州越秀集團股份有限公司 (formerly known as 廣州越秀集團有限公司) (Guangzhou Yue Xiu Holdings Limited*) ("GZYX Holdings") and Yue Xiu Enterprises (Holdings) Limited ("YX Enterprises"), managing the Capital Department, Customer Resource Management and Synergy Department and Information Centre of GZYX Holdings and YX Enterprises. Mr Li is mainly responsible for formulating and implementing major capital management plans, organizing and coordinating the investor relationship of listed companies, optimizing and synergizing the customer resources, and enhancing the development of information technology system, etc. Mr Li is also the Chairman and a Non-executive Director of Yuexiu Financial Holdings Limited (the immediate holding company of the Bank), the Chairman of Yue Xiu Securities Holdings Limited and a Director of Guangzhou City Construction & Development Co., Ltd. He is an Executive Director of Yuexiu Property Company Limited (Stock Code: 00123), the Chairman and an Executive Director of Yuexiu Transport Infrastructure Limited (Stock Code: 01052), both of which are listed on the Stock Exchange; a Non-executive Director of Yuexiu REIT Asset Management Limited (the Manager of Yuexiu Real Estate Investment Trust (Stock Code: 00405), which is listed on the Stock Exchange);

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 4 March 2021

and a Director of Guangzhou Yuexiu Financial Holdings Group Co., Ltd. (廣州越秀金融控股集團股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 000987). Mr Li graduated from the Faculty of Naval Architecture and Ocean Engineering of South China University of Technology majoring in Naval Architecture, and obtained a Master of Business Administration degree from Jinan University. He holds the qualification of a Senior Engineer in China and the certificate in Major Administrative Decision-Making and Argumentation (廣州市重大行政決策論證專家) conferred by the Guangzhou Municipal Government. Mr Li is also the President of the Association of Guangzhou Belt and Road Investment Enterprises, Member of Guangzhou Housing Provident Fund Management Committee, a Director of the Guangzhou People's Association for Friendship with Foreign Countries and the Vice-president of the Listed Companies Council, Hong Kong Chinese Enterprises Association. Mr Li joined YX Enterprises in December 2001 and has successively held positions in GZYX Holdings and YX Enterprises, including the Assistant to General Manager, General Manager of Capital Department, Assistant Manager of Corporate Management Department, Assistant to General Manager of Supervision and Auditing Department, and Deputy General Manager of Yue Xiu International Development Limited. Mr Li is familiar with business of listed companies and the operations of capital markets. Since 2008, he has participated in all of the major capital operation projects of GZYX Holdings and YX Enterprises; before that, he was also involved in the successful listing of Yuexiu Real Estate Investment Trust, and has extensive practical experience in capital operations.

Mr CHOW Cheuk Yu Alfred BBS, JP

aged 70, has been a Board member of the Bank since February 2003, and was re-designated from Independent Non-executive Director to Non-executive Director of the Bank in September 2004. Mr Chow has been a Non-executive Director of Yuexiu Financial Holdings Limited (the immediate holding company of the Bank) since February 2014. He is also the Chairman and a Non-executive Director of Chong Hing Insurance Company Limited (a wholly-owned subsidiary of the Bank). He graduated from The University of Hong Kong with a Bachelor of Laws degree and a Master of Social Sciences (Public Administration) degree. With 17 years' working experience in the civil service and over 35 years as a solicitor, Mr Chow is presently the senior partner of Kwan & Chow, Solicitors in Hong Kong. He is also a China-Appointed Attesting Officer. Mr Chow is a director and legal advisor of Hong Kong Chiu Chow Chamber of Commerce Limited and Federation of HK Chiu Chow Community Organizations Limited; and legal advisor to Jao Tsung-I Petite Ecole Fan Club and various community bodies. He was the Chairman of the HKSAR Passports Appeal Board and Chief Adjudicator of the Registration of Persons Tribunal.

Ms CHEN Jing

aged 49, has been a Non-executive Director of the Bank since August 2018. Ms Chen is the Chief Financial Officer and General Manager of the Finance Department of 廣州越秀集團股份有限公司 (formerly known as 廣州越秀集團有限公司) (Guangzhou Yue Xiu Holdings Limited*) ("Guangzhou Yue Xiu Holdings") and Yue Xiu Enterprises (Holdings) Limited. Ms Chen is an Executive Director and Chief Financial Officer of Yuexiu Property Company Limited (Stock Code: 00123) and an Executive Director of Yuexiu Transport Infrastructure Limited (Stock Code: 01052). She is also a Non-executive Director of Yuexiu Financial Holdings Limited (the immediate holding company of the Bank).

Ms Chen graduated from the Xi'an Jiaotong University with a major in auditing, and holds a Master of Business Administration Degree from the School of Management and Economics of the Beijing Institute of Technology and the qualifications of auditor and certified internal auditor. Ms Chen joined Guangzhou Yue Xiu Holdings in July 2004 and was the Deputy General Manager of the Supervisory (Audit) Office and the General Manager of the Audit Department. Ms Chen has participated in building systems to monitor the major risks and finance of Guangzhou Yue Xiu Holdings. Ms Chen is well versed in risk management and internal control management, financial management of listed companies and has extensive experience in establishing a sound system for risk management and internal control, financial management for enterprises. Prior to joining Guangzhou Yue Xiu Holdings, Ms Chen worked in the School of Business of Hubei University and Hisense Kelon Electrical Holdings Company Limited.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 4 March 2021

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr CHENG Yuk Wo

aged 60, has been an Independent Non-executive Director of the Bank since September 2004. He has also been an Independent Non-executive Director of Yuexiu Financial Holdings Limited (the immediate holding company of the Bank) since February 2014. Mr Cheng has been an Independent Non-executive Director of Chong Hing Insurance Company Limited (a wholly-owned subsidiary of the Bank) since May 2017. Mr Cheng, a co-founder of a Hong Kong merchant banking firm, is currently the proprietor of a certified public accountant practice in Hong Kong. Mr Cheng obtained a Master of Science (Economics) degree in Accounting and Finance from the London School of Economics, England and a Bachelor of Arts (Honours) degree in Accounting from the University of Kent, England. He is a fellow of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Professional Accountants of Canada. Mr Cheng has more than 30 years of expertise in financial and corporate advisory services in mergers, acquisitions and investments. He had worked at Coopers and Lybrand (now known as PricewaterhouseCoopers) in London and Swiss Bank Corporation (now known as UBS AG) in Toronto, and held senior management positions in a number of Hong Kong listed companies.

In addition to his directorship in the Bank, Mr Cheng is also an Independent Non-executive Director of a number of companies listed on the Stock Exchange, including CSI Properties Limited (Stock Code: 00497), HKC (Holdings) Limited (Stock Code: 00190), Goldbond Group Holdings Limited (Stock Code: 00172), CPMC Holdings Limited (Stock Code: 00906), Top Spring International Holdings Limited (Stock Code: 03688), Liu Chong Hing Investment Limited (Stock Code: 00194), Chia Tai Enterprises International Limited (Stock Code: 03839), Miricor Enterprises Holdings Limited (Stock Code: 01827), Somerley Capital Holdings Limited (Stock Code: 08439), Kisdland International Holdings Limited (Stock Code: 02122) and C.P. Pokphand Co. Ltd. (Stock Code: 00043). Besides, Mr Cheng was an Independent Non-executive Director of C.P. Lotus Corporation (previous stock code: 00121) from September 2004 to October 2019, shares of which were withdrawn from listing on the Stock Exchange with effect from 28 October 2019, and DTXS Silk Road Investment Holdings Company Limited (formerly known as UDL Holdings Limited) (Stock Code: 00620), a company listed on the Stock Exchange, from November 2015 to May 2020.

Mr MA Chiu Cheung Andrew

aged 79, has been an Independent Non-executive Director of the Bank since August 2007. Mr Ma has also been an Independent Non-executive Director of Yuexiu Financial Holdings Limited (the immediate holding company of the Bank) since February 2014. He has been an Independent Non-executive Director of Chong Hing Insurance Company Limited (a wholly-owned subsidiary of the Bank) since January 2018. Mr Ma is a founder and former director of AMA CPA Limited (formerly known as Andrew Ma DFK (CPA) Limited). He is presently a Director of Mayee Management Limited and also a Director of several other private companies. Mr Ma has more than 40 years' experience in the fields of accounting, auditing and finance. He received his Bachelor's degree in Economics from The London School of Economics and Political Science (University of London) in England. Mr Ma is a fellow member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Directors and The Taxation Institute of Hong Kong.

In addition to his directorship in the Bank, Mr Ma is also an Independent Non-executive Director of a number of companies listed on the Stock Exchange, including China Resources Power Holdings Company Limited (Stock Code: 00836), Asiaray Media Group Limited (Stock Code: 01993), C-MER Eye Care Holdings Limited (Stock Code: 03309) and S.A.I. Leisure Group Company Limited (Stock Code: 01832). In addition, he was an Independent Non-executive Director of Asia Financial Holdings Limited (Stock Code: 00662) from September 2004 to May 2019 and C.P. Pokphand Co. Ltd. (Stock Code: 00043) from September 2005 to June 2020, all of which are listed on the Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 4 March 2021

Mr LEE Ka Lun

aged 65, has been an Independent Non-executive Director of the Bank since February 2014. Mr Lee has been an Independent Non-executive Director of Yuexiu Financial Holdings Limited (the immediate holding company of the Bank) since November 2013. He is also an Independent Non-executive Director of Yuexiu Property Company Limited (Stock Code: 00123), Chow Sang Sang Holdings International Limited (Stock Code: 00116), Medicskin Holdings Limited (Stock Code: 08307), Ever Harvest Group Holdings Limited (Stock Code: 01549) and Best Mart 360 Holdings Limited (Stock Code: 02360), all of which are listed on the Stock Exchange. He was an Independent Non-executive Director of REXLot Holdings Limited (Stock Code: 00555), a company listed on the Stock Exchange, from April 2007 to June 2018. Mr Lee is an accountant by profession and is a Fellow of the Association of Chartered Certified Accountants in the UK. He has over 20 years of experience in banking and auditing.

Mr YU Lup Fat Joseph

aged 73, has been an Independent Non-executive Director of the Bank since August 2015. Mr Yu has been an Independent Non-executive Director of Yuexiu Financial Holdings Limited (the immediate holding company of the Bank) since August 2015. He is also an Independent Non-executive Director of Yuexiu Property Company Limited (Stock Code: 00123), a company listed on the Stock Exchange. Mr Yu holds a Master Degree in Applied Finance from Macquarie University in Australia, a Diploma of Management Studies from The University of Hong Kong and a Diploma from the Association of International Bond Dealers. Mr Yu was the Founding President of the Hong Kong Forex Club from 1974 to 1975. Mr Yu was also the Founding Deputy Chairman of the Hong Kong Capital Markets Association and Asia Chairman of the Association of International Bond Dealers. Mr Yu has held numerous senior managerial and advisory positions and has more than 40 years of experience in investment, banking and finance.

* *for identification purpose only*

Note: The directorships held by the Directors in the subsidiaries of the Bank (where applicable) are set out in the "List of names of the directors of Chong Hing Bank Limited and its subsidiaries" posted on the Bank's website (www.chbank.com/en/personal/footer/about-ch-bank/investor-relations/directors-list/index.shtml).

SENIOR MANAGEMENT

Mr TANG Xianqing

aged 56, has been the Deputy Chief Executive of the Bank since November 2019. Mr Tang graduated from the Hunan University of Science and Engineering and obtained a Master Degree in Economics (with research focus on International Finance) from Sichuan University. Mr Tang has 21 years of experience in business operations and management of Mainland commercial banks. He held senior positions in the head office and branches of three Mainland banks and possesses extensive experience in business operations, marketing, risk control, strategic planning and other aspects of the banking sector in Mainland China. Prior to joining the Bank, Mr Tang was a senior executive of a Hong Kong subsidiary of a state-owned enterprise, which is listed among Fortune Global 500 Enterprises.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 4 March 2021

Mr CHIU Tak Wah Edward

aged 58, Executive Vice President, has been the Chief Operating Officer of the Bank since May 2017 and Alternate Chief Executive of the Bank, Yuexiu Financial Holdings Limited (the immediate holding company of the Bank) and Chong Hing Finance Limited (a wholly-owned subsidiary of the Bank) since December 2019. He is also a Director of various subsidiaries of the Bank. Mr Chiu holds a Bachelor of Science degree at the King's College London, University of London and a Master of Science degree at The London School of Economics and Political Science, University of London. Mr Chiu has more than 30 years of experience in banking, financial services and management consultancy in the Asia Pacific region, Europe and China while working for several leading financial institutions. Prior to joining the Bank, he was a General Manager, Head of Operations of a leading Chinese bank, and held different senior positions in major financial institutions.

Mr CHAN Kam Ki Vincent

aged 58, Executive Vice President, has been the Chief Financial Officer of the Bank since April 2017. Mr Chan graduated from The Chinese University of Hong Kong and obtained a Master Degree in Applied Finance from Macquarie University, Australia. He is a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the American Institute of Certified Public Accountants, a designation holder of the Chartered Institute of Management Accountants and a Certified Internal Auditor of The Institute of Internal Auditors. Mr Chan has more than 30 years of auditing and financial controllership experience in the financial services industry. He worked for an international accounting firm and held regional roles in major cities of several international banks and senior positions in regional and local banks prior to joining the Bank.

Mr WOO Pak Kin Clement

aged 45, Executive Vice President, has been the Chief Risk Officer of the Bank since September 2019. Mr Woo holds a Bachelor Degree in Business Administration from The Chinese University of Hong Kong and a Bachelor Degree in Applied Accounting from Oxford Brookes University. He is a Fellow Chartered and Certified Accountant and a Chartered Financial Analyst. Mr Woo has more than 20 years of experience in the banking industry covering enterprise risk, credit risk, market risk and operational risk management, and possesses sound knowledge in formulating bank-wide risk management framework. Prior to joining the Bank, he was the Risk Management Director and Head of Risk Management of a leading Chinese bank.

Ms CHAN Yun Ling

aged 54, Executive Vice President, Head of Treasury and Markets. She joined the Bank in April 2015. She holds a Bachelor of Arts degree from The Chinese University of Hong Kong, and had pursued studies in France and the United Kingdom. Specialising in financial markets business, Ms Chan has worked in major financial hubs including Hong Kong, Tokyo, Singapore, Shanghai and Taiwan, in charge of financial markets related activities in various financial institutions.

Mr SIN Tat Wo

aged 50, Executive Vice President, Head of Mainland Corporates Division and Acting Head of Hong Kong Corporates Division. Mr Sin joined the Bank in December 2015. He graduated from Hong Kong Baptist University with a Bachelor degree in Business Administration. He has over 25 years of experience in the banking industry in Hong Kong and Mainland. He worked for a number of major Chinese banks in their corporate, commercial and investment banking departments.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 4 March 2021

Ms LAM Pik Ha Eliza

aged 59, Executive Vice President, has been the Head of Financial Institutions Division since September 2018. Ms Lam has over 30 years of experience in corporate and institutional banking business and has held different senior positions with various international banks in managing corporate and institutional clients in the Asia Pacific region. Ms Lam obtained a postgraduate diploma in international marketing of the Society of Business Practitioner (U.K.).

Ms NG Sau Wai Sylvia

aged 53, Executive Vice President, has been the Head of Personal Banking Division of the Bank since October 2020. Ms Ng obtained a Bachelor of Social Sciences degree from The University of Hong Kong. Ms Ng possesses over 20 years of working experience in the financial services industry, and has worked in various Chinese and foreign banks in Hong Kong overseeing retail banking business and marketing.

Mr WONG Kowk Leung Arthur

aged 54, Executive Vice President, has been the Chief Information Officer of the Bank since September 2019. Mr Wong graduated and obtained a Master Degree in Business Administration from The University of Warwick (UK). Mr Wong has more than 30 years of experience in the banking and technology industry in Hong Kong. Prior to joining the Bank, Mr Wong was the Chief Information Officer/Head of Information Technology of Hong Kong Interbank Clearing Limited, as well as a number of major Chinese banks and financial institutions.

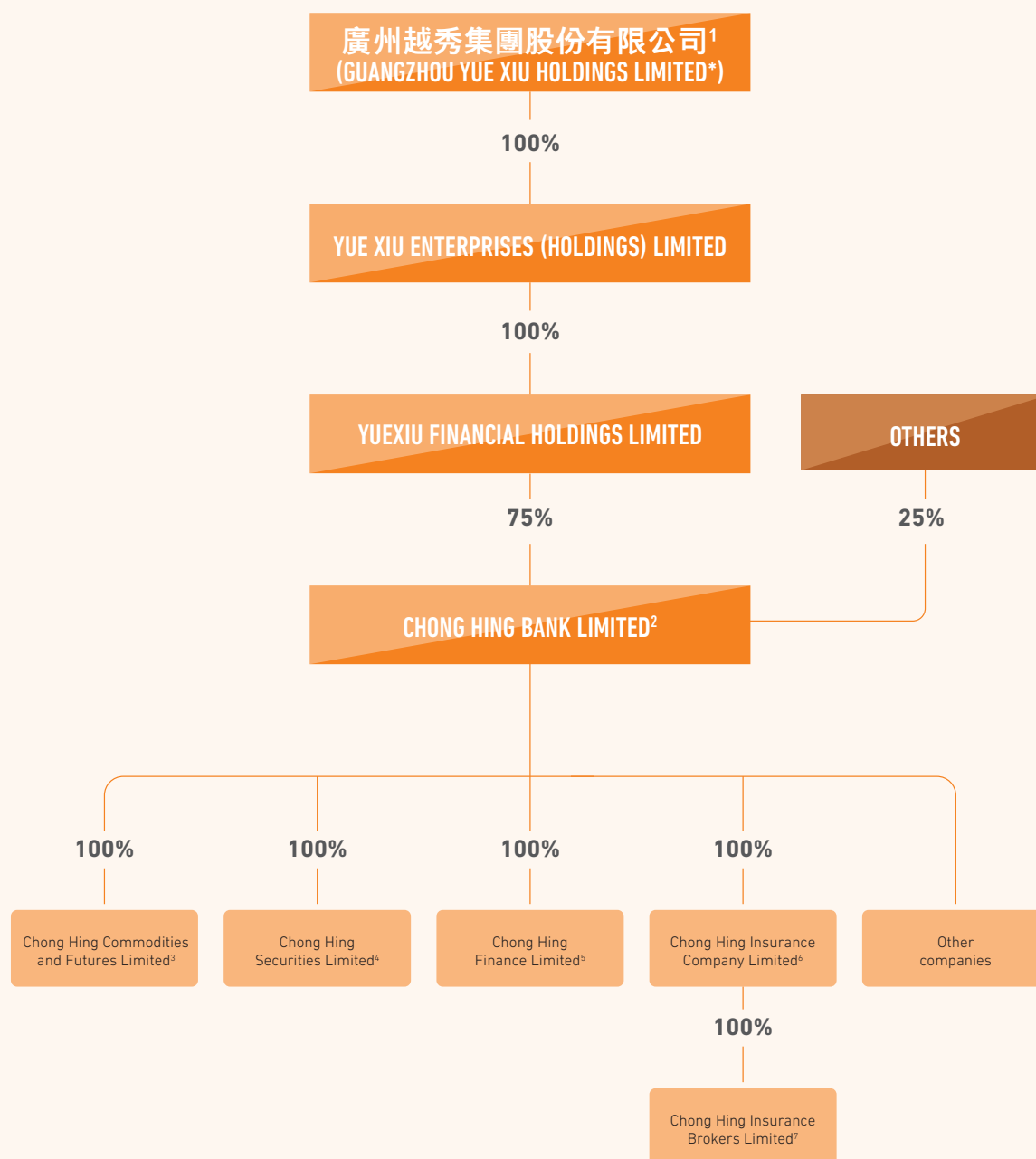
Ms LAI Wing Nga

aged 56, Executive Vice President, has been appointed the Company Secretary of the Bank since August 2015. Ms Lai has over 25 years of working experience in the corporate secretarial and governance areas of sizable listed companies and financial institutions. Prior to joining the Bank, Ms Lai was the group company secretary of AIA Group Limited from April 2010 to July 2015, which is a company listed on the Stock Exchange (Stock Code: 01299). She was the company secretary of Standard Chartered Bank (Hong Kong) Limited from April 2005 to March 2010 and before that was the company secretary of Industrial and Commercial Bank of China (Asia) Limited from April 2000 to April 2005. Ms Lai obtained a master of business degree from The University of Newcastle in Australia. She also obtained a postgraduate diploma in corporate finance from The Hong Kong Polytechnic University. Ms Lai is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute in the U.K.

Note: The directorships held by the Senior Management in the subsidiaries of the Bank (where applicable) are set out in the "List of names of the directors of Chong Hing Bank Limited and its subsidiaries" posted on the Bank's website (www.chbank.com/en/personal/footer/about-ch-bank/investor-relations/directors-list/index.shtml).

ABRIDGED CORPORATE STRUCTURE

as of 4 March 2021



¹ State-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the Guangzhou Municipal People's Government

² Listed on The Stock Exchange of Hong Kong Limited

³ Registered with The Hong Kong Futures Exchange Limited as a participant

⁴ Registered with The Stock Exchange of Hong Kong Limited as a participant

⁵ Licensed under the Hong Kong Banking Ordinance as a deposit-taking company

⁶ Licensed under the Hong Kong Insurance Ordinance as an insurance company

⁷ Licensed under the Hong Kong Insurance Ordinance as an insurance broker company

* for identification purpose only

SHAREHOLDERS' CALENDAR

as of 4 March 2021

2020 AUGUST 28	Interim results for the first half of 2020 announced
2020 OCTOBER 15	Interim cash dividend for 2020 of HK\$0.11 per share paid
2021 MARCH 4	Final results for the year of 2020 announced
2021 MAY 11-14 <small>(both days inclusive)</small>	Register of Members will be closed for the purpose of ascertaining entitlements to attend and vote at the 2021 Annual General Meeting
2021 MAY 14	2021 Annual General Meeting will be held
2021 MAY 24-25 <small>(both days inclusive)</small>	Register of Members will be closed for the purpose of ascertaining entitlements to receive the final cash dividend for 2020
2021 JUNE 2	If approved by the Shareholders at the 2021 Annual General Meeting, the final cash dividend for the financial year of 2020 of HK\$0.23 per share will be payable to the Shareholders whose names appear on the Register of Members of the Bank on 25 May 2021

CHAIRMAN'S STATEMENT



Mr Zhang Zhaoxing
Chairman

2020 was an eventful and difficult year. COVID-19 has spread all over the world, resulting in unprecedented pressures on the global economy and making a tremendous impact on a wide variety of industries. Amid the massive changes in the macro-environment, Chong Hing Bank Limited (the "Bank" or "Chong Hing Bank") upheld its strategies and actively addressed the fallout from the pandemic. The Bank prevented and controlled different types of risks in order to maintain its sound operations, and boosted its digital transformation. It also implemented a series of relief measures as well as devoting itself to its mission of providing quality products and services.

In the "Top 1000 World Banks" list compiled by the British magazine "The Banker", Chong Hing Bank's ranking climbed from 722nd in 2013 to 381st in 2020, placing it among the top 400 in the global banking industry and a record high for the Bank.

In 2020, major global economies implemented monetary-easing policies to relieve the impact of the pandemic. The continuous downward trend of HK dollar and US dollar interest rates led to significantly narrowing of net interest margins amid emerging uncertainties in credit risks in the market. In accordance with the accounting principles of the Hong Kong Financial Reporting Standard 9 Financial Instruments (HKFRS 9), the Bank has progressively increased forward-looking impairment allowances for financial assets. Operating profit before impairment allowances amounted to HK\$2,147 million, a decrease of 10.03% compared to the previous year. Profits attributable to equity owners amounted to HK\$1,480 million, a decrease of 22.13% compared to the previous year, and earnings per share were HK\$1.34. In view of the highly uncertain economic outlook and extremely challenging operating environment, and our regulator has advised that banks should reserve sufficient capital to meet future challenges, the Board of Directors of the Bank (the "Board") has recommended payment of a final cash dividend of HK\$0.23 per share for 2020. The total dividend payout for the year accounted for 24.54% (2019: 32.42%) of this adjusted profit attributable to equity owners, less the distribution paid on additional equity instruments.

CHAIRMAN'S STATEMENT

The major financial ratios for 2020 are as follows:

- Return on shareholders' equity: 6.01%
- Average liquidity maintenance ratio: 44.98%
- Total capital ratio as of 31 December 2020: 16.79%
- Tier 1 capital ratio as of 31 December 2020: 14.36%
- Loan to deposit ratio as of 31 December 2020: 73.65%

In the past year, the continuous tensions between China and the US, intensifying geopolitical risks, persistent monetary-easing policies and the worldwide pandemic scourge further worsened global economies that were already under pressure. Governments around the world faced the simultaneous challenges of combating the pandemic, stabilising the economy and protecting people's livelihoods. With its effective and remarkable control over the pandemic, Mainland China's economy made a steady recovery. Its Gross Domestic Product (GDP) for the year increased by 2.3%, making it the first country among major economies to achieve growth and also enabling it to reach the milestone of totalling RMB100 trillion for the first time. On the other hand, Hong Kong has suffered continuously from the pandemic, putting severe pressure on its economy. Nevertheless, Hong Kong has managed to maintain the strong stability of its financial system and demonstrated once again its solid position as an international financial hub.

Against the backdrop of an accelerated establishment of a new development pattern based on domestic macro-circulation together with the mutual promotion of international and domestic dual-circulation in China, Hong Kong will join in the development of the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area"). It will actively take the role as a participant in domestic circulation and as the facilitator of international circulation in order to fully utilise Hong Kong's unique advantages and further strengthen financial connectivity between Hong Kong and the Mainland. With the tremendous opportunities offered by the national policy, Chong Hing Bank proactively leverages the synergies with its controlling shareholder Yuexiu Group and strategic shareholder Guangzhou Metro. The Bank also reinforces regional strategic integration, emphasises the development of cross-border finance and conducts operations in major cities in the Greater Bay Area. The goal of these policies is to gradually develop into an integrated commercial bank with cross-border expertise.

CHAIRMAN'S STATEMENT

The pandemic has stimulated inspiration and opportunity in the field of fintech as well as boosted the digital transformation of the banking industry. To cope with the competitive landscape in this new normal, Chong Hing Bank has proactively recruited IT talents in Hong Kong and the Mainland, accelerated system digitisation and reform of its operation, upgraded electronic channels, and established a service model focusing on customer experience and integrating traditional and digital banking. As always, the aim is to satisfy customers' needs for both online and offline bank services and to drive the business development of Chong Hing Bank.

The year 2021 is the opening year of China's "14th Five-Year Plan", as well as the first year of Chong Hing Bank's five-year development plan. Under the uncertain development of the pandemic and global economic instabilities, the Bank will continue its operation in a prudent and pragmatic manner, actively monitor and overcome the pandemic and other risks, optimise its business structure and accelerate its digital transformation. By that means it will improve its capability in comprehensive financial services for thriving in circumstances where both opportunities and challenges exist, laying the basis for a high-quality development when the pandemic is over. Given the promising prospect of China's economic development based on solid foundation, and the Bank's gradual expansion in its network of outlets across the Mainland, as well as its continued steady progress towards establishing a wholly-owned banking subsidiary in Mainland China, Chong Hing Bank's development is set to scale new heights.

Following the particularly difficult year of 2020, I would like to express my heartfelt gratitude to all our directors and shareholders for their valuable guidance, also our appreciation to customers and business partners for their long-lasting support, and our full acknowledgement to the management team and the entire staff of Chong Hing Bank for their dedication and hard work during the pandemic. Hope always exists where there are difficulties. With our firm commitment to "Exceed • Excel", we will continue to strive for high-quality development and resolutely forge ahead.

Zhang Zhaoxing

Chairman

Hong Kong, 4 March 2021

CHIEF EXECUTIVE'S STATEMENT



Mr Zong Jianxin

Chief Executive

ECONOMIC ENVIRONMENT

In 2020, the global economy was hit hard by the COVID-19 pandemic. The Gross Domestic Product (GDP) of the US decreased 3.5% year-on-year, the first negative record since 2009. The severe pandemic in the US, together with the unknown diplomatic and economic policies of the new administration, created uncertainty in relations between China and the US and in the global economy. The US Federal Reserve announced at the last FOMC meeting of 2020 that the benchmark interest rate would remain unchanged and that its bond-buying programme would be maintained until there were indications of a stable recovery in the economy. The economic prospects of the Eurozone are also gloomy due to the lockdown measures implemented to tackle the pandemic, with its GDP in 2020 shrinking 6.8% year-on-year. The European Central Bank launched an emergency package in December 2020 to ease the impact of the pandemic, and mitigate risks of the downward trend in the economy. The UK and EU reached a trade agreement in December last year to avoid the economic and financial market chaos that would have resulted from a “No-deal Brexit”.

With the rapid containment of the pandemic and the effectiveness of its macroeconomic measures, Mainland China’s economy has shown a stable recovery since the second quarter of last year, with GDP growth of 2.3% for 2020. The Central Economic Work Conference held at the end of the year stressed the need to maintain continuity, stability and sustainability in macro policies this year in order to maintain the necessary support for economic recovery. The People’s Bank of China emphasised the need to make monetary policy flexible and appropriate in order to maintain reasonable and adequate liquidity. At the same time, it encouraged the deepening of market-based reform of interest rates on a continuous basis in order to keep the RMB exchange rate at a reasonable and balanced level. The RMB’s exchange rate trended down initially but then moved up during the year, with the central parity rate of the RMB against the US dollar rising by 6.47%. For the

CHIEF EXECUTIVE'S STATEMENT

Mainland cities where Chong Hing Bank's major business operates, the recovery momentum remained stable last year. Guangzhou's GDP rose by 2.7% year-on-year as the city's economic growth improved steadily and all major economic indicators rebounded; Shenzhen's GDP rose by 3.1% year-on-year as the city's advanced manufacturing and high-tech industries grew rapidly and imports and exports continued to reach new highs; and Shanghai's GDP rose by 1.7% year-on-year as industrial production continued to pick up and the information services and financial sectors accelerated.

The prolonged pandemic has dealt a severe blow to Hong Kong's economy, with its GDP dropping by 6.1% year-on-year. In its foreign trade, goods exports decreased slightly by 0.3%, mainly due to the recovery in the Mainland economy. Total services exports declined by 36.8% as a result of the ban on inbound tourism and a weak global economy. Private consumption expenditures and overall investment spending fell by 10.2% and 11.6% respectively due to weak local demand, social distancing measures, negative consumer sentiment caused by a difficult situation in the labour market, and an uncertain business environment. The labour market was further hit by the fourth wave of the COVID-19 outbreak starting in November 2020. Unemployment was at a 16-year high of 6.6% in the fourth quarter. As for the property market, the private residential price index remained stable, while sales of new residential properties slowed as a result of the pandemic, with potential buyers shifting to the secondary market. Overall, the number of transactions in the property market was similar to that in 2019. The pandemic led to volatility in the global financial markets in 2020, and so did the Hong Kong stock market. The Hang Seng Index fell to a more than three-year low in March and closed at 27,231 points on the last trading day of 2020, representing a cumulative loss of 3.4% for the year.

RESULTS ANNOUNCEMENT AND PROFIT ANALYSIS

The results for the financial year of 2020 of Chong Hing Bank Limited (the "Bank" or "Chong Hing Bank"), on a consolidated basis, are summarised below:

KEY FINANCIAL DATA

	31 December (12 months)		
	2020 HK\$'000	2019 HK\$'000	Variance
1. Operating profit before impairment allowances	2,147,413	2,386,842	-10.03%
2. Profit attributable to equity owners	1,479,978	1,900,642	-22.13%
3. Net interest income	2,926,552	3,259,860	-10.22%
4. Net fee and commission income	434,327	325,657	+33.37%
5. Net income from trading and investments	258,453	241,293	+7.11%
6. Other operating income	189,385	184,461	+2.67%
7. Operating expenses	1,661,304	1,624,429	+2.27%
8. Net impairment losses on financial assets	422,003	137,881	+206.06%
	As of 31 December 2020 HK\$'000	As of 31 December 2019 HK\$'000	Variance
9. Loans and advances to customers	142,381,617	118,078,914	+20.58%
10. Deposits from customers	183,228,291	162,664,648	+12.64%
11. Investments in securities	52,853,752	57,534,593	-8.14%
12. Total assets	232,899,647	212,768,034	+9.46%

CHIEF EXECUTIVE'S STATEMENT

KEY FINANCIAL DATA

	31 December (12 months)		
	2020	2019	Variance (Note 4)
13. Return on shareholders' equity (Note 1)	6.01%	8.31%	-2.30p.p
14. Earnings per share (Note 2)	HK\$1.34	HK\$1.80	-25.56%
15. Net interest margin	1.34%	1.62%	-0.28p.p
16. Cost to income ratio	43.62%	40.50%	+3.12p.p
17. Average liquidity maintenance ratio	44.98%	46.27%	-1.29p.p

	As of	As of	Variance
	31 December 2020	31 December 2019	
18. Non-performing loan ratio	0.65%	0.33%	+0.32p.p
19. Loan to deposit ratio	73.65%	69.46%	+4.19p.p
20. Net assets value per share (excluding additional equity instruments and before the final dividend)	HK\$23.14	HK\$22.37	+3.44%
21. Total capital ratio (Note 3)	16.79%	17.51%	-0.72p.p
22. Tier 1 capital ratio (Note 3)	14.36%	14.32%	+0.04p.p
23. Common Equity Tier 1 capital ratio (Note 3)	11.27%	12.28%	-1.01p.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 in the relevant year.
- (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 2020, profit attributable to equity owners of the Bank amounted to HK\$1,480 million, representing a decrease of 22.13% compared to 2019. The operating profit after impairment allowances amounted to HK\$1,725 million, representing a decrease of 23.28% from 2019. The decrease in consolidated profit for the year was mainly attributable to the decrease in net interest income and the increase in impairment allowances for financial assets.

Net interest income was HK\$2,927 million, a decrease of 10.22% over the same period in 2019, which was driven mainly by the surge of market interest rates due to substantial rates cut policies. The net interest margin of the Bank was 1.34% in 2020, decreased by 28 basis points from 2019.

Net fee and commission income increased by 33.37% to HK\$434 million, mainly due to the increase in fee income from securities dealings, wealth management and loan-related businesses.

Foreign exchange and other treasury customer activities remained stable. Net income from trading and investments recorded a gain of HK\$258 million, which was mainly derived from trading income, foreign currency funding swap activities and foreign currency transactions with customers.

CHIEF EXECUTIVE'S STATEMENT

In 2020, impairment allowance losses on financial assets increased by HK\$284 million to HK\$422 million when compared with the previous year, due to the growth in loans and advances, changes in macroeconomic factors in the risk model and provisions for specific 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 and expansion in Hong Kong and the Mainland. The operating expenses were HK\$1,661 million, slightly increased by 2.27% from the previous year.

Loans and advances to customers recorded a marked increase of 20.58% to HK\$142.4 billion. Given the rapid increase in loans and advances, the Bank continued to maintain prudent management of its credit risk exposure with sound asset quality of loans and advances.

Deposits from customers grew by 12.64% to HK\$183.2 billion. The stable deposit base achieved by the Bank allowed a balanced loan growth and the development of wealth management as well as cross-border financial businesses.

Total assets increased by 9.46% to HK\$232.9 billion. As at 31 December 2020, 73.02% of the Bank's assets were based in Hong Kong.

Due to the proactive management of its assets as well as the maturity profile of its liabilities, the Bank's liquidity remained stable. The loan to deposit ratio was at 73.65%, and the average liquidity maintenance ratio was 44.98%.

Total capital ratio was at 16.79%, the Tier 1 capital ratio was at 14.36% and the Common Equity Tier 1 capital ratio was at 11.27%.

Overall, under the adverse business environment in 2020, the Bank's core business lines, financial positions and asset quality were strong, while the capital adequacy ratio and liquidity maintenance ratio were above the relevant statutory requirements.

DIVIDEND

To properly maintain the balance between sharing our success and preserving capital for future growth, the Board has recommended the payment of the final cash dividend of HK\$0.23 per share for the financial year of 2020 (2019 final cash dividend: HK\$0.41 per share). Subject to the approval of shareholders at the forthcoming annual general meeting of the Bank, the final cash dividend will be paid on Wednesday, 2 June 2021 to the shareholders whose names appear on the register of members of the Bank on Tuesday, 25 May 2021. Total dividends for the financial year of 2020, including the interim cash dividend of HK\$0.11 per share paid on Thursday, 15 October 2020 (2019 interim cash dividend: HK\$0.17 per share), amounted to HK\$0.34 per share (2019 total dividends: HK\$0.58 per share). The total dividend payout for the year as a percentage of adjusted profit attributable to equity owners less distribution paid on the additional equity instruments will be 24.54% (2019: 32.42%).

SUCCESSFUL ISSUANCE OF US\$300 MILLION 5.50 PER CENT. ADDITIONAL TIER 1 CAPITAL SECURITIES

The Bank successfully issued US\$300 million 5.50% Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the "Securities") in July 2020 under the existing US\$2 billion Medium Term Note and Perpetual Capital Securities Programme, and its completion took place on 3 August. The Securities are qualified as Basel III-compliant additional tier 1 capital. The proceeds will serve to strengthen the Bank's capital base and support the implementation of its strategic plans.

CHIEF EXECUTIVE'S STATEMENT

Amid the economic turmoil, the coupon rate of this batch of Securities was 20 basis points lower than the rate 5.70% of the same type of securities issued by the Bank in 2019 due to its effective issuance strategies and mechanism. This coupon rate was better than that of the securities issued by other industry peers during the same period, reflecting the Bank's competitiveness. The successful issuance demonstrated once again the recognition from international bonds investors and Yuexiu Group, its controlling shareholder, and their support for and trust in the development of the Bank.

BUSINESS REVIEW

CORPORATE BANKING

Chong Hing Bank endeavours to provide a full range of banking products and professional services to its corporate customers in Hong Kong and the Mainland, including lending, trade finance, cash management, cross-border business solutions and financial market products. The Bank constantly expands its target customer base, focusing on providing diversified and comprehensive financial services to its customers in the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area").

To support local SMEs, apart from backing the HKSAR Government's "SME Loan Guarantee Scheme" and "SME Financing Guarantee Scheme" offered by HKMC Insurance Limited, the Bank has launched and enhanced other SME relief measures in response to the pandemic. These include delaying implementation of the clean-up clause of revolving loans and overdraft facilities, extending expired term loan repayments or instalment payments, and extending principal repayment period for trade financing facilities. The Bank also fully supports the "Pre-approved Principal Payment Holiday Scheme" launched by the Hong Kong Monetary Authority together with the "Banking Sector SME Lending Coordination Mechanism", and provides support for the "Special 100% Loan Guarantee" under the "SME Financing Guarantee Scheme". By this means, the Bank aims to alleviate cash flow pressures on its customers and help local SMEs cope with the challenging business environment. Meanwhile, the Bank strengthens its internal cross marketing and offers corporate customers more value-added services such as financial management for employees, MPF services and wealth management, facilitating corporate customers to access its one-stop banking services platform.

As for the syndicated loan business in 2020, the Bank offered 32 loans in total, for seven of which the Bank acted as the lead arranger and bookrunner, while 12 of the loans were club loans. The number of transactions and amount of handling fee income both reached a record high since the Bank's establishment of the syndicated loan business in 2017. To further strengthen the platform for all-round development of the syndication loan business, the Bank set up a syndication agency team and was successfully awarded with two mandates. Meanwhile, the Bank proactively enhanced the quality of the loan asset portfolio and improved relevant returns via secondary market transactions. The Bank also seized the cross-border business opportunities brought about by the Greater Bay Area development and offered 24 cross-border structured finance transactions totalling HK\$6.5 billion.

Being an integrated commercial bank offering cross-border expertise and leveraging on its competitive edge in network interaction between Hong Kong and the Mainland, the Bank provided a variety of cross-border financial products and services. These are designed to accommodate customers' funding requirements in the Greater Bay Area and effectively manage their interest rate and exchange rate risks through the Bank's treasury product portfolio.

CHIEF EXECUTIVE'S STATEMENT

PERSONAL BANKING

The COVID-19 outbreak has depressed global and local economies and negatively affected the branch operations and business development of retail banks. To protect the health and safety of its customers and employees, the Bank adopted a series of special arrangements and measures throughout its branch operations. These included the temporary shortening of branch business hours, checking the temperature of every person upon entering branches, and providing pandemic prevention supplies. The Bank's marketing communications with customers shifted to online and to telephone conversations, while customers were encouraged to use internet banking service channels. These measures enabled the Bank to continue providing quality banking services during the pandemic.

In response to the COVID-19 outbreak, the Bank introduced various anti-pandemic measures and guidelines.



Supporting the Cash Payout Scheme of the HKSAR Government



To protect the health and safety of its customers and employees, the Bank provides pandemic prevention supplies at branches and ensures temperature checking of every person upon entering branches.

In the challenging environment, the Bank strived to establish a customer-oriented business model of comprehensive wealth management as well as to provide one-stop personal banking services to customers in Hong Kong and the Mainland. In 2020, the personal banking business continued to develop in a stable manner:

- In keeping with its "customer-centric" mission and to help customers cope with the economic challenges, the Bank launched a series of loan relief measures for personal banking customers and supported the HKSAR Government's Cash Payout Scheme.
- Total income from the investment business grew by approximately 10% in the year due to the development of the wealth management business, coupled with the promotion of wealth management, an improvement of processes and diversified investment products, and an enhanced wealth management platform. Following the "Finance + Technology" development strategy which aims at providing better wealth management services to customers, the number of bond transactions via electronic channels increased substantially during the year. The Bank has started preparations for the launch of the "Wealth Management Connect" service in the Greater Bay Area by adding choices to its investment products, and strengthening and upgrading the ancillary systems, in order to provide an easily accessed investment channel for cross-border investors.

CHIEF EXECUTIVE'S STATEMENT

- The Bank continued to optimise its life insurance services. With the policy of actively enriching life insurance products and promoting financing business, the Bank provided customers with appropriate life insurance/wealth management solutions to meet their demand for protection, and the commission income during the period increased substantially. Going forward, the Bank is set to develop its online platform for life insurance products.
- For interest income, after the Bank launched the “Cloud Rate” service, customers could set up time deposits electronically without visiting branches in person. This service is fast and convenient, enhancing the customer experience. 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 in order to boost the wealth management products financing business, increase the comprehensive income and optimise its loan portfolio.
- The overall income from the credit card business, including customer spending and acquiring business, was affected by a weak local retail market. In view of the change in consumer behaviour during the pandemic, the Bank accelerated the transformation of its business model towards digitisation and contactless payment. In the third quarter of the year, the Bank launched the “All-In-One” model for its acquiring business, supporting all kinds of payment methods through one single terminal, including Visa, Master, UnionPay, WeChat Pay, AliPay, UnionPay App, ApplePay, GooglePay and HuaweiPay. This not only satisfies customers' demand for different payment methods but also enhances the merchants' efficiency and reduces their manpower requirements. The Bank will strengthen cooperation with the facilitators of e-commerce payment and expand its local and global online payment business to achieve diversified development and raise income.

Looking ahead, the Bank will continue to enhance its wealth management business and optimise its electronic service platforms, in order to improve customer experience and provide efficient and professional banking services to its customers.

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定期存款金額 (港幣)	獎賞
HK\$20,000 或 \$10,000	電子禮券\$20
HK\$30,000 或 \$15,000	電子禮券\$30
HK\$50,000 或以上	電子禮券\$50

2. 多種多賞
定期存款自動轉存，網上銀行的活期或零存或零存以下指定金額之一，即可獲以上定期存款，可獲額外獎賞，優惠多多！

定期存款金額 (港幣)	獎賞
HK\$20,000 或以上	電子禮券\$20
HK\$30,000 或以上	電子禮券\$30
HK\$50,000 或以上	電子禮券\$50

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全新流動理財或網上銀行 (每月以HK\$200,000 (等值) 或以上開立定期存款或零存定期存款，即可享額外HK\$100現金回贈。

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創興銀行
Chong Hing Bank

The Bank actively drives its wealth management business and optimises its electronic service platform, so as to improve customer experience and provide efficient and professional services to its customers.

CHIEF EXECUTIVE'S STATEMENT

FINANCIAL MARKETS BUSINESS

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

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 risk limits to ensure a safe liquidity level. The Bank has continued to leverage on its dynamic investment strategies and to 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 well-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

In 2020, the Bank's Mainland branches and sub-branches actively responded to the COVID-19 pandemic and the severe and complex external economic situation, maintaining a good momentum of steady but progressive overall operations. Throughout the year, the Bank's assets and liabilities grew steadily, with enhanced profitability, a consolidated customer base, improved products and services, more efficient internal processes, good asset quality and upgraded risk resilience.

The business advantages of the Bank's Mainland institutions continued to strengthen. Based on the financial business secured in Guangdong, Guangzhou and Hengqin, the Shantou Branch successfully won the tender for the value-added and value preservation project of the local social security fund. Meanwhile the Guangzhou Branch successfully achieved a breakthrough in financial business at the regional level, and the deposit scale of Mainland institutions reached a new high.

The Bank's corporate business in the Mainland continued to achieve comprehensive development. By strengthening the marketing of key customers and the management of lending customers, increasing the settlement ratio of existing customers and handling cross-border business, the Bank maintained good growth in corporate deposits. At the same time, it broadened the sources of credit customers, actively adjusted the investment of loans and continuously optimised the loan structure, accelerated the progress of product development, enhanced professional service capabilities and increased fee income.

The Bank's Mainland institutions closely tracked financial market updates, carefully followed the progress of bond investment, continued to optimise the investment structure and enriched the product portfolio. By this means, it effectively enhanced its financial market business and revenue while achieving a number of financial market business breakthroughs. In early 2020, the Guangzhou Branch, as the branch of a foreign bank in China, completed the first underwriting and issuance of local government bonds. At the same time, the Guangzhou Branch received regulatory approval for its derivatives trading business and was admitted to the interbank foreign exchange market as a derivatives member. In addition, the Shenzhen Branch and Guangzhou Branch gained approval to join the bond market of the stock exchange, with the Shenzhen Branch being the first branch of a foreign bank in China admitted to the exchange bond market.

CHIEF EXECUTIVE'S STATEMENT

Mainland institutions of the Bank have improved the quality of their electronic services, as reflected in faster growth in online banking transactions and transaction amounts, steady growth in direct connections between banks and enterprises, and the successful launch of the bank-enterprise reconciliation system. Meanwhile, the Bank also launched the “financial services platform for supply chain” in December, providing comprehensive financial services to core corporate customers and their upstream and downstream suppliers, such as placing orders, transferring, financing and withdrawal.

The Bank actively leveraged its strengths in integrated finance and cross-border financial services to meet the cross-border needs of its customers. During the year, the Bank launched a loan service for Hong Kong and Macau residents who were purchasing properties in the Mainland. The Nansha Sub-branch was the first to set up a “full electronic commercial registration service zone” in the region to provide effective services to Nansha investment customers.

The Bank further improved its network in the Greater Bay Area with the opening of the Foshan Chancheng Sub-branch and the Dongguan Sub-branch in February and December 2020 respectively. The Bank has ten institutions in the Mainland now, achieving a presence in major core cities in the Pearl River Delta and Yangtze River Delta. The Bank was also on track in preparing for the establishment of a wholly-owned banking subsidiary in Mainland China.

Foshan Chancheng Sub-branch and Dongguan Sub-branch were officially opened in 2020. The Bank now has ten institutions in the Mainland.



The opening of the Foshan Chancheng Sub-branch



The opening of the Dongguan Sub-branch

CHONG HING SECURITIES LIMITED

With the global financial markets and economy severely hit by the pandemic in 2020, the governments of various countries went all out to rescue their economies and launched a number of stimulus measures, resulting in a significant increase in market capitalisation and a vibrant investment atmosphere in the securities market. This, coupled with the entry of various new economy stocks and the return of China concept stocks into the IPO market, led to a continuous increase in trading volume in the Hong Kong stock market, resulting in a 75% growth in trading volume and a 62% increase in commission income for Chong Hing Securities compared to the same period in 2019. In November 2020, Chong Hing Securities launched a new “Chong Hing Securities Mobile App” to provide customers with more comprehensive and faster access to stock market information and investment opportunities. In addition, Chong Hing Securities will collaborate with Chong Hing Bank to launch a mobile banking application for remote securities account opening. This new service will help to attract new customers and generate business growth for Chong Hing Securities.

CHIEF EXECUTIVE'S STATEMENT

CHONG HING INSURANCE COMPANY LIMITED

The unexpected pandemic has brought pressures to the business operations of many sectors in Hong Kong, and also affected the development of the general insurance market. However, driven by its prudent operations, Chong Hing Insurance's gross premiums and pre-tax earnings remained stable during the year, and its performance was good overall.

Given the availability of COVID-19 vaccines, economic activities are likely to resume and the general insurance market will also improve. In respect of non-insurance income, while Chong Hing Insurance strives to maintain stable interest income in the persistent low interest rate environment, it will also explore investment opportunities in order to achieve better business performance.

CHONG HING INSURANCE BROKERS LIMITED

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

Being the agent of the "Proposed Policy Owner", Chong Hing Insurance Brokers searches for suitable insurance solutions from different insurance companies according to customers' insurance and financial needs. Chong Hing Insurance Brokers will make every effort to expand its service to middle/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.

TRANSFORMATION OF BUSINESS DEVELOPMENT

Fintech

In line with the market trend, the Bank actively carried out the digitisation of banking services to meet customers' needs for financial technology products and services. During the pandemic, the Bank was prompt in arranging remote and cross-border digital banking services. It also launched a number of online application services, such as online submission of applications for dual authentication, third-party transfer accounts and change of transaction limits, helping customers to use banking services from home. In addition, the Bank launched Chong Hing Mobile Banking for opening investment accounts and online fund account access to facilitate fund transactions. Furthermore, the Bank established "Cloud Rate" for online time deposits, with online time deposit transactions increasing by more than 200% year-on-year during the period.



The Bank introduces various digital banking services to meet customers' needs for financial technology products and services.

CHIEF EXECUTIVE'S STATEMENT

Through a series of operational initiatives and promotions, the Bank is able to analyse customer data, focus on target customers, and provide targeted products and services. This has resulted in a 28% year-on-year growth in digital banking customers and a 63% year-on-year increase in the number of financial transactions conducted through digital channels. The Bank is further enhancing its online banking services and expects to roll out a number of enhancements in 2021 to provide an even better and more convenient digital experience.

Operational Optimisation

For the fourth year in a row, the Bank has committed itself to enhancing its operations and has successfully completed 28 process enhancement projects. These include streamlining the process for SMEs and start-ups to open accounts, and simplifying the process of opening new accounts for existing corporate customers. In addition, the Bank's centralised operations have been implemented to cover investment transaction settlement, corporate banking services, retail banking services and credit card transactions. During the pandemic, the Bank has used off-site and online channels to support its corporate banking services, allowing customers to send transaction instructions directly to the Bank. It has also added a customer experience team to capture and assess frontline customer service levels through a "mystery customer service survey". The business transformation initiatives have helped the Bank to continuously improve the customer experience and raise business efficiency.

In its digitisation of operations, the Bank has implemented an "end-to-end" robotic process automation project across the front, middle and back offices and has successfully implemented nine automated processes during the year, saving up to 80% in time for some processes. Currently, the Bank is in the process of automating its regulatory processes. These include information-assisted screening of the Mainland's anti-money laundering system, risk monitoring and online banking remittance processes, and accelerating the implementation of RegTech to enhance regulatory and compliance efficiency.

CORPORATE CULTURE

In 2020, the Bank further promoted its corporate culture among its employees by carrying out various cultural activities to raise their awareness and recognition. Staff members were motivated to put the corporate culture values into practice so that the atmosphere of "Exceed • Excel" of Chong Hing Bank could be further reinforced.

- The "Chong Hing People's Charter" was introduced to encourage employees to adopt the desired work practices and demonstrate the enterprise spirit and management concepts of the Bank's corporate culture.
- "The 2nd Corporate Culture Ambassador Programme" was launched, in which 26 ambassadors were appointed to promote the corporate culture; 40 corporate cultural events with over 1,400 participants were held.
- Employees were encouraged to make innovative suggestions for driving the sustainable development of the Bank. A number of ideas covering administration, system upgrading and corporate culture have been implemented.
- Through collaboration with a third-party research team, the third corporate culture survey was conducted to gauge staff perceptions of corporate culture and their behavioural changes. The results will help Chong Hing Bank to formulate its future culture promotion strategy.
- The Staff Compliment Platform was launched to promote a corporate culture of mutual encouragement and appreciation, thereby enhancing employees' sense of belonging and strengthening team spirit.

CHIEF EXECUTIVE'S STATEMENT

CORPORATE RESPONSIBILITY

In order to fulfil its corporate mission of “To benefit the community”, alongside its business development, the Bank continues to care for the community and help the underprivileged. It has actively supported and participated in the activities of social welfare organisations and environmental groups, performing its corporate social responsibility and contributing to the creation of a harmonious and inclusive community.

CARING FOR THE COMMUNITY AND THE ENVIRONMENT

- In March, the Bank participated in the “Earth Hour 2020” environmental protection activity organised by World Wide Fund for Nature.
- In May, the management team, together with the volunteers’ team, donated face masks and hand sanitisers to Baptist Oi Kwan Social Service, Senior Citizen Home Safety Association and Hong Kong Association of the Deaf, providing pandemic prevention support to underprivileged families, the elderly and people with disabilities.



- In September, the Bank joined the Mid-Autumn Festival Home Visit organised by Senior Citizen Home Safety Association and visited some elderly people who were living alone; the Bank’s volunteers brought them seasonal food, pandemic prevention materials, as well as warm greetings.



The Bank once again joined the “Child Development Fund” organised by the Labour and Welfare Bureau by providing matching donations to the participating children of the Baptist Oi Kwan Social Service programme. The Fund aims to provide support to children so that they can develop savings habits, identity their long-term vision and achieve personal growth.

CHIEF EXECUTIVE'S STATEMENT

During the year, the Bank continued to support the fundraising activities of charities such as The Community Chest of Hong Kong, Tung Wah Group of Hospitals, Yan Chai Hospital, Po Leung Kuk and Yan Oi Tong through the Bank's branch network. These activities included selling raffle tickets, collecting donations from flag days, and setting up donation boxes in branches. In addition, the Bank also arranged to attach the promotional leaflets of charities to the Bank's mailings to customers to help raise funds for the charities.

ACHIEVEMENTS UNDER CORPORATE RESPONSIBILITY

To fulfill its corporate social responsibility, the Bank has continued to implement policies and measures to care for its employees, invest in staff training and development, as well as actively participate in charitable activities such as environmental protection, financial education and concern for the well-being of the underprivileged. The Bank's commitment to staff welfare and community service has been recognised by various sectors of the community in 2020:

- The "Best Reward & Recognition Strategy Award (Grand)" and the "Best Innovation L&D Initiative Award (Gold)" in the "Best HR Awards 2020" awarded by CTgoodjobs in recognition of the Bank's outstanding performance in motivating and developing its staff.
- The "Good MPF Employer Award" for 2019 - 2020, and the "e-Contribution Award" and the "MPF Support Award" presented by the Mandatory Provident Fund Schemes Authority.
- The "Green Office" and "Eco-Healthy Workplace" labels presented by the World Green Organisation.



CHIEF EXECUTIVE'S STATEMENT

- The "Social Capital Builder Logo Award 2020" presented by the "Community Investment and Inclusion Fund" under the Labour and Welfare Bureau.
- The "Happy Company" logo presented by the Hong Kong Productivity Council and the Promoting Happiness Index Foundation.
- Signed "Joyful@Healthy Workplace" charter promoted by the Department of Health, the Labour Department and the Occupational Safety and Health Council.
- Participated in the "Jockey Club 'Age-friendly City Partnership' Scheme 2020" and recognised with their logo.



CHIEF EXECUTIVE'S STATEMENT

- The 10 Years plus Caring Company Logo awarded by the Hong Kong Council of Social Service.
- The "Second Runner-up Award in the Industrial and Commercial Institutions and Group of the Charity Raffle Competition" and the "Raffle Sales Award" presented by the Tung Wah Group of Hospitals.



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.

For details of the Bank's corporate governance practices, please refer to the section entitled "Corporate Governance Report" of this Annual Report.

CHIEF EXECUTIVE'S STATEMENT

AWARDS AND RECOGNITION

The Bank is committed to providing quality banking services and improving operational efficiency. In 2020, it received the following awards and recognition from professional bodies:

- Selected among the Top 1000 World Banks by the British magazine The Banker, Chong Hing Bank's ranking rose from the 722nd in 2013 to 381st in 2020, placing it among the top 400 in the global banking industry.
- Received for the 12th time the "Best SME's Partner Award" presented by the Hong Kong General Chamber of Small and Medium Business, and once again received the "Best SME's Partner Gold Award".
- The "One-stop Portal for Shenzhen-Hong Kong Commercial Services" setup in the Shenzhen Branch of the Bank was awarded the Third Prize in the Shenzhen "Financial Innovation Awards" 2019 by Shenzhen Municipal Financial Regulatory Bureau.



CHIEF EXECUTIVE'S STATEMENT

FUTURE DEVELOPMENT

The global economy was in recession in 2020 due to the COVID-19 outbreak. Hong Kong's economic outlook is facing a high degree of uncertainty, with persisting risks of a downward economy and deterioration of credit conditions. Thus, the banking industry is experiencing a tough and challenging time.

The year 2020 was the year for concluding the Bank's current five-year strategic plan, and formulating the next one. Over the past five years the Bank underwent a smooth development with a rising industry ranking. Laying the groundwork for the "14th Five-Year Plan" (2021–2025), the Bank has consolidated and strengthened its corporate governance and operational control. It has also significantly enhanced its middle and back office support, products and services, as well as its financial technology capabilities, and has steadily expanded its business network and value customer base.

In the face of the rapid changes and challenges in the external environment, Chong Hing Bank, with the support of its controlling shareholder Yuexiu Group, will adopt in its new five-year plan the guiding principle of "seeking progress in a stable manner and aiming high". It will fully capitalise on its advantage of being based in the financial centre of Hong Kong, and actively seize the opportunities arising from the national strategic development to achieve stable and long-term development. The Bank will treat the Mainland business as its core operation, focus on the Greater Bay Area in its strategic development, improve the network of its Mainland institutions, strive for the establishment of a wholly-owned banking subsidiary in Mainland China, and make strategic breakthroughs in cross-border business and digital transformation. The goal is to build the Bank into a national bank with sound and efficient risk control, enhanced management quality, continuously improved service standards and strengthened professional development, forming a dual core business structure in Hong Kong and the Mainland.

APPRECIATION

In the past year, the pandemic brought unprecedented challenges to the world. The Bank has responded with a series of measures to protect the health and safety of its customers and employees. It has also launched relief programmes for customers affected by the pandemic and provided donations of pandemic prevention materials to the needy.

I would like to express my gratitude to the Board of Directors for their guidance and support during this challenging period, which have enabled the Bank to pursue its business in accordance with the established development strategy. Heartfelt thanks also go to our shareholders, business partners and customers who have consistently supported and trusted the Bank. I am also grateful to the excellent management team and staff for their hard work and dedication in overcoming the difficulties and fighting the pandemic. The Bank will continue to pay close attention to the development of the pandemic and the market situation, and respond appropriately with measures to ensure the continued business operation of the Bank. We will also strive to fully implement our strategic plan for the next five years, continue to strengthen overall risk control, improve operational efficiency, provide professional financial services to customers, and create greater value for our shareholders.

Zong Jianxin

Chief Executive

Hong Kong, 4 March 2021

DIRECTORS' REPORT

The Directors of Chong Hing Bank Limited (the "Bank") are pleased to present their report together with the audited consolidated financial statements of the Bank and its subsidiaries (collectively the "Group") for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is engaged in provisions of banking and related financial services. Details of the principal activities and other particulars of the Bank's principal subsidiaries are set out in note 23 to the consolidated financial statements.

A discussion and analysis of the activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), including a fair review of the business and a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2020 (if any), as well as indication of likely future development in the Group's business are set out in the sections headed "Financial Summary" on pages 2 to 3, "Chairman's Statement" on pages 15 to 17, "Chief Executive's Statement" on pages 18 to 34 and note 7 to the consolidated financial statements on pages 120 to 170 in this Annual Report. Discussions on the environmental policies and performance, compliance by the Group with the relevant laws and regulations that have a significant impact on the Group and an account of the key relationships of the Group with its stakeholders are contained in the "2020 Environmental, Social and Governance Report", which is an online report available on the websites of Hong Kong Exchanges and Clearing Limited ("HKEX") and the Bank. The discussion referred to the above form part of this report.

BUSINESS PERFORMANCE

The Group's total operating income (net of interest expense and fee and commission expense) is analysed and reported by significant business classes as follows:

	2020 HK\$'000	2019 HK\$'000
Corporate and personal banking	2,901,024	3,037,316
Financial markets activities	557,083	519,751
Securities business	169,877	114,384
Others	180,733	339,820
	3,808,717	4,011,271

The corporate and personal banking services provided by the Group are principally lending and trade finance facilities, auto financing, consumer financing, overdraft facilities, mandatory provident fund services, provision of fixed deposits, current and savings accounts, credit cards and personal wealth management services. The Group also provides fully automated telephone and internet banking services to its customers. Other banking services offered include remittance and money exchange, safe deposit boxes, autopay and direct debit services.

Financial markets activities mainly comprise inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the Group and centralised cash management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts, and from the Bank's cash management activities through foreign currency funding swaps.

DIRECTORS' REPORT

Securities business of the Group includes securities trading, stockbroking and futures broking.

Others comprise investment holding, insurance, other investment advisory services and property investments.

An analysis of the Group's performance for the year by operating and geographical segments is set out in note 6 to the consolidated financial statements.

MAJOR CUSTOMERS

The Directors believe that the five largest customers of the Group accounted for less than 30% of the total of interest income and other operating income of the Group for the year.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 84 and 85.

An interim cash dividend of HK\$0.11 (2019: HK\$0.17 per share) per share was paid to the shareholders during the year. The board of Directors of the Bank (the "Board") has recommended the payment of a final cash dividend for the year ended 31 December 2020 of HK\$0.23 per share (2019: HK\$0.41 per share). Subject to the shareholders' approval at the forthcoming annual general meeting of the Bank to be held on 14 May 2021 (the "2021 AGM"), the final cash dividend will be paid on 2 June 2021 to the shareholders whose names appear on the register of members of the Bank as at the close of business on 25 May 2021.

FINANCIAL SUMMARY

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2020 and for the last four financial years is set out on pages 2 and 3 of this Annual Report.

DISTRIBUTABLE RESERVES

Distributable reserves of the Bank as at 31 December 2020, calculated under the provisions of sections 291, 297 and 299 of the Companies Ordinance, amounted to HK\$9,055,117,000 (2019: HK\$7,876,893,000).

SHARES ISSUED

Details of the issued share capital of the Bank during the year ended 31 December 2020 are set out in note 31 to the consolidated financial statements. There was no share issued by the Bank during the year.

DEBENTURES ISSUED

The Bank issued US\$300 million 5.50% Undated Non-cumulative Subordinated Additional Tier 1 Capital Securities on 3 August 2020 (the "New Securities") under its US\$2 billion Medium Term Note and Perpetual Capital Securities Programme. After deducting the issuance costs, the Bank received net consideration of HK\$2,316,681,000 from the issuance of the New Securities. The net proceeds enabled the Bank to strengthen its capital base and support the implementation of its strategic plans. The New Securities are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Details of the debentures issued during the year ended 31 December 2020 are set out in note 32 to the financial statements.

DIRECTORS' REPORT

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

The Bank has redeemed all the outstanding 6.000% subordinated notes due 2020 in an aggregate principal amount of US\$204,024,000 ("2020 Due Subordinated Notes") at maturity on 4 November 2020. The 2020 Due Subordinated Notes were then cancelled and delisted from the Stock Exchange.

Save as disclosed above, neither the Bank nor any of its subsidiaries has purchased, sold or redeemed any of the Bank's listed securities during the year ended 31 December 2020.

DIRECTORS

The Directors of the Bank during the year and up to the date of this report are:

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

In accordance with article 100 of the Bank's articles of association (the "Articles of Association") and pursuant to the code provision A.4.2 of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), Messrs. Li Feng, Cheng Yuk Wo and Ma Chiu Cheung Andrew shall retire by rotation at the 2021 AGM. Except for Mr Ma Chiu Cheung Andrew who will not seek for re-election after his retirement at the conclusion of the 2021 AGM, all other retiring directors, being eligible, offer themselves for re-election at the 2021 AGM.

Mr Cheng Yuk Wo has served as an Independent Non-executive Director of the Bank for more than nine years. During his tenure, Mr Cheng has not engaged in any executive management of the Bank and has demonstrated his ability to provide an independent view to the Bank's matters. In addition, Mr Cheng has declared his independence by submitting the annual confirmation of independence to the Bank pursuant to rule 3.13 of the Listing Rules. The Board believes that he is independent and complies with the independence requirements under rule 3.13 of the Listing Rules.

Details of the retiring Directors to be re-elected at the 2021 AGM are set out in the circular to the shareholders sent together with this Annual Report.

DIRECTORS' REPORT

DIRECTORS OF SUBSIDIARIES

Listed below are the names of all the directors who have served on the boards of directors of the Bank's subsidiaries during the year and up to the date of this report:

Mr CHAN Kam Ki Vincent	Mr LAI Kwok Wai Paul ⁽³⁾
Mr CHAN Man Mei	Mr LAU Wai Man
Mr CHAN Tai On	Mr LEUNG Chan Keung
Mr CHENG Yuk Wo	Mr MA Chiu Cheung Andrew
Mr CHIU Tak Wah Edward	Mr MA Wai Leung
Ms CHIU Yau Sim ⁽¹⁾	Mr SEI Wing Keen
Mr CHOW Cheuk Yu Alfred	Mr WONG Wan Hong
Mr CHU Shiu Man	Mr WOO Pak Kin Clement ⁽²⁾
Mr CHUN Ka Wing	Mr ZONG Jianxin

Notes:

- (1) Retired as a Director of the relevant subsidiary of the Bank on 1 January 2020.
- (2) Appointed as a Director of the relevant subsidiaries of the Bank on 2 January 2020 and 24 March 2020 respectively.
- (3) Resigned as a Director of the relevant subsidiary of the Bank on 7 April 2020.

A list of names of all the directors who have served on the boards of directors of the subsidiaries of the Bank during the year ended 31 December 2020 and up to the date of this report is available on the Bank's website (www.chbank.com/en/personal/footer/about-ch-bank/investor-relations/directors-list/index.shtml).

DIRECTORS' SERVICE CONTRACTS

No Directors proposed for re-election at the 2021 AGM has a service contract with the Bank and/or any of its subsidiaries which is not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Bank has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules. The Nomination and Remuneration Committee has duly reviewed the independence of each of these directors. The Bank considered that all the Independent Non-executive Directors meet the independent guidelines set out in rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guideline.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Saved as disclosed in the section headed "CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS" of this report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Bank or any of its holding companies, its subsidiaries or its fellow subsidiaries was a party and in which a Director of the Bank or an entity connected with a Director (within the meaning of section 486 of the Companies Ordinance) had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Bank.

DISCLOSURE OF CHANGES IN DIRECTORS' INFORMATION

After having made all reasonable enquiry, the Bank is not aware of any information which is required to be disclosed by Directors pursuant to rule 13.51B(1) of the Listing Rules since the date of the Bank's 2020 interim report for the six months ended 30 June 2020 and up to 4 March 2021 (being the date of approval of this Annual Report).

DIRECTORS' REMUNERATION

The emoluments of the Directors of the Bank on a named basis are set out in note 42 to the consolidated financial statements. During the year ended 31 December 2020, the annual fees for the Chairman and members of the Audit Committee, Connected Party Transactions Committee (the "CPT Committee"), Nomination Committee*, Remuneration Committee*, Risk Committee and Information Technology Strategy Committee (formerly known as Special Board Committee (for an Information Technology Project)) (the "ITSC") are as follows:

	Audit Committee	CPT Committee	Nomination Committee*	Remuneration Committee*	Risk Committee	ITSC
Chairman	HK\$100,000	HK\$80,000	HK\$80,000	HK\$80,000	HK\$80,000	HK\$100,000
Member	HK\$20,000	HK\$20,000 ⁽¹⁾	HK\$20,000	HK\$20,000	HK\$20,000	HK\$20,000 ⁽²⁾

* The Nomination Committee and the Remuneration Committee have been re-organized into the Nomination and Remuneration Committee with effect from 1 January 2021.

Notes:

- (1) Chief Financial Officer and Chief Risk Officer of the Bank, who also serve as members of the CPT Committee, are not entitled to receive the abovementioned membership fee.
- (2) Executive Directors and Chief Information Officer of the Bank, who also serve as members of the ITSC, are not entitled to receive the abovementioned membership fee. The remaining members of the ITSC are Mr LEE Ka Lun (being the Chairman of the ITSC) and Mr LI Feng.

DIRECTORS' REPORT

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every Director or other officer of the Bank shall be entitled to be indemnified out of the assets of the Bank against any liability (to the extent permitted by the Companies Ordinance) incurred by them or any of them as the holder of any such office or appointment to a person other than the Bank or any of its holding companies, its subsidiaries or its fellow subsidiaries. The Bank has taken out insurance against any liability associated with defending any proceedings which may be brought against the Directors and other officers of the Bank.

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

As of 31 December 2020, the interests and short positions of the Directors (including the Chief Executive) of the Bank in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") as recorded in the register required to be kept under section 352 of the SFO (the "Register"), or as otherwise notified to the Bank and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Listing Rules (the "Model Code"), were as follows:

INTERESTS IN SHARES AND/OR UNDERLYING SHARES OF THE BANK

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

Notes:

- (1) The approximate percentage of interests held was calculated on the basis of 972,526,094 ordinary shares of the Bank in issue as at 31 December 2020.
- (2) These represent the interests of award shares granted to the Directors under the Share Award Scheme adopted by the Bank on 27 February 2020. Details of award shares are set out under the sub-section headed "Share Award Scheme" in this report.

DIRECTORS' REPORT

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

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

Note:

- (1) The approximate percentage of interests held was calculated on the basis of 15,482,280,438 ordinary shares of Yuexiu Property Company Limited in issue as at 31 December 2020.

Save as disclosed above, as of 31 December 2020, to the knowledge of the Bank, none of the Directors (including the Chief Executive) of the Bank had any other interests or short positions in any shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the Register, or as otherwise notified to the Bank and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed above and in the sections headed "EQUITY-LINKED AGREEMENTS" in this report and "SHARE BASED PAYMENT" in note 34 to the consolidated financial statements, at no time during the year ended 31 December 2020, was the Bank or its subsidiaries a party to any arrangement to enable the Directors (including the Chief Executive) of the Bank and their spouses or children under the age of 18 to acquire benefits by an acquisition of shares or underlying shares in, or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO); or was the Bank or any of its holding companies, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

DIRECTORS' REPORT

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

As of 31 December 2020, the following parties, other than the Directors or the Chief Executive of the Bank, had interests or short positions in the shares and underlying shares of the Bank as recorded in the register required to be kept under section 336 of the SFO:

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

Notes:

- (1) The approximate percentage of interests held was calculated on the basis of 972,526,094 ordinary shares of the Bank in issue as at 31 December 2020.
- (2) Yuexiu Financial Holdings Limited is wholly-owned by YX Enterprises, and YX Enterprises is wholly-owned by GZYX Holdings.
- (3) Pursuant to the SFO, 廣州地鐵集團有限公司 (Guangzhou Metro Group Co., Ltd.*) is deemed to be interested in 70,126,000 ordinary shares of the Bank as a result of its indirect holding of such shares through its wholly-owned subsidiary, details of which were as follows:

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

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

* for identification purpose only

Save as disclosed above, as at 31 December 2020, no other person, other than the Directors or the Chief Executive of the Bank whose interests are set out in the above section headed "Directors' (including the Chief Executive's) interests and short positions in shares, underlying shares and debentures", had any interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' REPORT

EQUITY-LINKED AGREEMENTS

Save as disclosed below and "SHARE BASED PAYMENT" in note 34 to the consolidated financial statements, no equity-linked agreements was entered into by the Bank during the year or subsisted at the end of the year.

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

SHARE OPTION SCHEME

The Bank has no outstanding share options at the beginning and at the end of the year. During the year, no share options have been granted under the Share Option Scheme adopted by the Bank pursuant to a resolution passed on 9 May 2012 and there is no change in any terms of the Share Option Scheme. Details of the Share Option Scheme are set out in note 34 to the consolidated financial statements.

SHARE AWARD SCHEME

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

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

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

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

The Board shall not make any further grant of award shares under the Share Award Scheme such that the total number of award shares granted under the Share Award Scheme will not exceed 10% of the total number of issued shares of the Bank as at the grant date. During the year ended 31 December 2020, a total of 1,447,397 award shares were granted under the Share Award Scheme and 91,466 award shares had been forfeited before vesting. No award shares have been vested during the year. Further details of the Share Award Scheme are set out in note 34 to the consolidated financial statements.

DIRECTORS' REPORT

During the year ended 31 December 2020, the movements of the award shares of the Bank are set out as follows:

Category of Participants/ Name	Date of grant	Number of Award Shares				As at 31 December 2020	Vesting Period
		As at 1 January 2020	Granted during the year	Vested during the year	Forfeited during the year		
Directors							
Zong Jianxin	16 March 2020	-	168,659	-	-	168,659	16 March 2021 to 16 March 2024
Lau Wai Man	16 March 2020	-	77,031	-	-	77,031	16 March 2021 to 16 March 2024
Sub-total		-	245,690	-	-	245,690	
Eligible Participants							
In aggregate	16 March 2020	-	1,201,707	-	91,466	1,110,241	16 March 2021 to 16 March 2024
Total		-	1,447,397	-	91,466	1,355,931	

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

- (A) During the year, the Group conducted certain connected transaction and continuing connected transactions with certain connected persons (as defined in the Listing Rules) which are required to be disclosed pursuant to rules 14A.49 and 14A.71 of the Listing Rules.

CONNECTED TRANSACTION

On 16 March 2020, the Board resolved that 255,802 Award Shares be granted to three Connected Grantees who are connected persons of the Bank, including two Executive Directors of the Bank and one director of the Bank's significant subsidiaries pursuant to the Share Award Scheme adopted by the Bank on 27 February 2020, in order to recognize the contributions of the Connected Grantees and in driving the continuous business operation and development of the Group. The Award Shares to three Connected Grantees shall be satisfied by way of allotment and issue of 255,802 new Shares pursuant to a Specific Mandate. The Specific Mandate and the allotment and issue of new Shares to the Connected Grantees under the Share Award Scheme were approved by the independent shareholders of the Bank at the annual general meeting of the Bank held on 15 May 2020.

Further details of the Share Award Scheme are set out under the sub-section headed "Share Award Scheme" of this report, the announcement of the Bank dated 16 March 2020 and the circular of the Bank dated 14 April 2020. The capitalized terms set out in this paragraph shall have the same meanings as defined in the circular of the Bank dated 14 April 2020 unless the context otherwise requires.

DIRECTORS' REPORT**CONTINUING CONNECTED TRANSACTIONS**

- (i) On 25 August 2020, the Bank and Guangzhou Yuexiu Financial Technology Co., Ltd.* (廣州越秀金融科技有限公司) ("Yuexiu Financial Technology") (an associate of GZYX Holdings) entered into an Information Technology Framework Agreement (the "2020 IT Framework Agreement") to renew the arrangements under the Information Technology Framework Agreement dated 25 October 2017 (the "2017 IT Framework Agreement") entered into between the Bank and Yuexiu Financial Technology which governs the provision of various information technology related services (the "IT Services") by Yuexiu Financial Technology and its subsidiaries (the "Yuexiu Financial Technology Group") to the Group. The term of the 2017 IT Framework Agreement commenced on 25 October 2017 and ended on 31 August 2020 (both dates inclusive); the term of the 2020 IT Framework Agreement commenced on 1 September 2020 and shall end on 31 August 2023 (both dates inclusive).

Mr Li Feng, being common director of the Bank and Guangzhou Yuexiu Financial Holdings Group Co., Ltd., being the immediate holding company of Yuexiu Financial Technology, on the date of execution of the 2020 IT Framework Agreement, abstained from voting on the resolutions approving the 2020 IT Framework Agreement (including the annual caps). Save as disclosed above, none of the Directors has any material interest in the 2020 IT Framework Agreement (including the annual caps).

The fees charged by the Yuexiu Financial Technology Group for the IT Services to be supplied to the Group under the 2017 IT Framework Agreement and 2020 IT Framework Agreement were/will be determined with reference to the expected costs to be incurred in the course of provision of the IT Services to the Group, volume and duration of the IT Services required, and the prevailing market prices of the same or similar services offered by independent third parties.

The total fees incurred in respect of the IT Services provided by the Yuexiu Financial Technology Group to the Group under the 2017 IT Framework Agreement during the period from 1 January 2020 to 31 August 2020 were HK\$13,713,589, which was within the annual cap of HK\$87,540,000 as announced on 25 October 2017.

The total fees incurred in respect of the IT Services provided by the Yuexiu Financial Technology Group to the Group under the 2020 IT Framework Agreement during the period from 1 September 2020 to 31 December 2020 were HK\$5,599,397, which was within the annual cap of HK\$10,000,000 as announced on 25 August 2020.

DIRECTORS' REPORT

- (ii) On 29 March 2018, Guangzhou Tianhe Sub-Branch of the Bank ("Guangzhou Tianhe Sub-Branch") and Guangzhou Jiayao Real Estate Company Limited* (廣州佳耀置業有限公司) ("Guangzhou Jiayao") (an associate of YX Enterprises) entered into a Tenancy Agreement (the "YX Financial Tower Tenancy Agreement") for the lease of Units 102-01, 201 and 301, Yuexiu Financial Tower, 28 Zhujiang East Road, Tianhe District, Guangzhou, the People's Republic of China ("PRC") (the "YX Financial Tower Property")# at a monthly rent (inclusive of 5% VAT) of RMB166,576.20 from 1 April 2018 to 30 April 2018, RMB166,577.25 from 1 May 2018 to 31 May 2018, RMB333,153.45 from 1 June 2018 to 31 March 2019, RMB166,576.20 from 1 April 2019 to 30 April 2019, RMB166,577.25 from 1 May 2019 to 31 May 2019, RMB333,153.45 from 1 June 2019 to 31 March 2020, RMB166,576.20 from 1 April 2020 to 30 April 2020, RMB166,577.25 from 1 May 2020 to 31 May 2020 and RMB333,153.45 from 1 June 2020 to 31 March 2021. Guangzhou Tianhe Sub-Branch was entitled to a rent concession in an aggregate amount of RMB333,153.45 (inclusive of tax) for the first two months of each year of the lease period. If the YX Financial Tower Tenancy Agreement is terminated before its expiry date for reasons not related to Guangzhou Jiayao, Guangzhou Tianhe Sub-Branch will no longer be entitled to such rent concession and will be required to immediately repay Guangzhou Jiayao the difference between the rents payable during the aforesaid rent concession period and the actual rents paid.

On 29 March 2018, Guangzhou Tianhe Sub-Branch and Guangzhou Yue Xiu City Construction Jones Lang LaSalle Property Services Co., Ltd.* (廣州越秀城建仲量聯行物業服務有限公司) ("GZYX Jones Lang") (an associate of YX Enterprises) entered into a Property Management Agreement for the provision of management services in relation to the YX Financial Tower Property at a monthly management fee of RMB48,743.

On 29 March 2018, Guangzhou Branch of the Bank ("Guangzhou Branch") and Guangzhou Yuyao Real Estate Company Limited* (廣州譽耀置業有限公司) ("Guangzhou Yuyao") (an associate of YX Enterprises) entered into a Site Agreement for the lease of the rooftop of Yuexiu Financial Tower, 28 Zhujiang East Road, Tianhe District, Guangzhou, PRC (the "Site") for display of the Bank's logo at the rooftop of the Site at an annual rental fee (inclusive of tax) of RMB800,000.

The total rents, management fees and rental fees of the Site incurred during the financial year 2020 were RMB5,049,603.95, which were within the annual cap of RMB5,173,000 as announced on 29 March 2018.

- (iii) On 30 November 2018, Guangzhou Branch and Guangzhou Jingyao Real Estate Company Limited* (廣州景耀置業有限公司) (an associate of YX Enterprises) entered into a new Tenancy Agreement for the lease renewal of Rooms 01-16, 50/F, Yuexiu Financial Tower, 28 Zhujiang East Road, Tianhe District, Guangzhou, PRC (the "YX Tower Property") at a monthly rent (inclusive of 5% VAT) of RMB714,486.15 from 1 December 2018 to 30 November 2020 and RMB757,355.55 from 1 December 2020 to 30 November 2021.

On 30 November 2018, Guangzhou Branch and GZYX Jones Lang entered into a new Property Management Agreement for the provision of management services in relation to the YX Tower Property at a monthly management fee of RMB100,761.

The total rents and management fees incurred during the financial year 2020 were RMB9,825,835.20, which were within the annual cap of RMB10,080,000 as announced on 30 November 2018.

DIRECTORS' REPORT

- (iv) On 17 May 2019, the Bank and GZYX Holdings entered into a Foreign Exchange and Financial Markets Transactions Framework Agreement (the "2019 Framework Agreement") to renew the arrangements under the framework agreement dated 17 June 2016 entered into between the Bank and GZYX Holdings which governs the foreign exchange transactions and financial markets transactions (the "FX and FM Transactions") to be entered into between the Group and GZYX Holdings and its non-listed subsidiaries (the "Yuexiu Holdings Private Group"). The term of the 2019 Framework Agreement commenced on 1 January 2019 and shall end on 31 December 2021 (both dates inclusive). The FX and FM Transactions between the Group and the Yuexiu Holdings Private Group adopted the prevailing market prices or rates normally applicable to similar transactions conducted with independent third parties.

Mr Zhang Zhaoxing, being common director of the Bank and GZYX Holdings on the date of execution of the 2019 Framework Agreement, abstained from voting on the resolutions approving the 2019 Framework Agreement and the FX and FM Transactions contemplated thereunder (including the annual caps). Save as disclosed above, none of the Directors has any material interest in the 2019 Framework Agreement and the FX and FM Transactions contemplated thereunder (including the annual caps).

From 1 January 2020 to 31 December 2020, the aggregate absolute amount of fair value at inception of the FX and FM Transactions recorded as assets/liabilities was HK\$2,023,182, which was within the annual cap of HK\$30 million for the financial year 2020 as announced on 17 May 2019.

- (v) On 21 August 2019, the Bank and Yuexiu Property Company Limited (listed on the Stock Exchange, Stock Code: 00123) ("Yuexiu Property") (an associate of YX Enterprises) entered into a Foreign Exchange Transactions Framework Agreement (the "2019 FX Framework Agreement") to renew the arrangements under the framework agreement dated 29 November 2016 entered into between the Bank and Yuexiu Property which governs the foreign exchange transactions (the "FX Transactions") to be entered into between the Group and Yuexiu Property and its subsidiaries (the "Yuexiu Property Group"). The term of the 2019 FX Framework Agreement commenced on 1 January 2019 and shall end on 31 December 2021 (both dates inclusive). The FX Transactions between the Group and the Yuexiu Property Group adopted the prevailing market prices or rates normally applicable to similar transactions conducted with independent third parties.

Mr Li Feng, Ms Chen Jing, Mr Lee Ka Lun and Mr Yu Lup Fat Joseph, being common directors of the Bank and Yuexiu Property on the date of execution of the 2019 FX Framework Agreement, abstained from voting on the resolutions approving the 2019 FX Framework Agreement and the FX Transactions contemplated thereunder (including the annual caps). Save as disclosed above, none of the Directors has any material interest in the 2019 FX Framework Agreement and the FX Transactions contemplated thereunder (including the annual caps).

From 1 January 2020 to 31 December 2020, the aggregate absolute amount of fair value at inception of the FX Transactions recorded as assets/liabilities was HK\$608,386, which was within the annual cap of HK\$40 million for the financial year 2020 as announced on 21 August 2019.

DIRECTORS' REPORT

Details of the above continuing connected transactions have been disclosed in accordance with Chapter 14A of the Listing Rules and are set out in the respective announcements of the Bank which are available at the websites of the Bank and HKEX.

* *for identification purpose only*

The address of YX Financial Tower Property as set out in the Bank's announcement dated 29 March 2018 was Units 101-01, 201 and 301, Yuexiu Financial Tower, 28 Zhujiang East Road, Tianhe District, Guangzhou, PRC, which was subsequently corrected as Units 102-01, 201 and 301, Yuexiu Financial Tower, 28 Zhujiang East Road, Tianhe District, Guangzhou, PRC.

(B) EXEMPT CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Bank entered into transactions with GZYX Holdings and its associates (as defined under Chapter 14A of the Listing Rules) and the Bank's directors and their associates. Such transactions included but not limited to cheque clearing, accepting deposits, extending credit facilities, foreign exchange transactions, remittances and other banking and financial services, which were conducted on normal commercial terms and in the ordinary and usual course of business of the Bank, and are exempt from the relevant disclosure requirements under Chapter 14A of the Listing Rules.

(C) ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

The Bank's external auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed in the paragraphs above in accordance with rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Bank to the Stock Exchange.

In accordance with rule 14A.55 of the Listing Rules, the Independent Non-executive Directors of the Bank reviewed the continuing connected transactions disclosed in the paragraphs above and the auditor's letter and confirmed that those transactions were conducted and entered into (i) in the ordinary and usual course of business of the Group, (ii) on normal commercial terms, and (iii) in accordance with the respective agreements governing such transactions on terms that are fair and reasonable and in the interests of shareholders of the Bank as a whole.

(D) RELATED PARTY TRANSACTIONS

Certain related party transactions (the "RPT Transactions") as disclosed under note 39 to the consolidated financial statements constituted connected transactions or continuing connected transactions under the Listing Rules. Such RPT Transactions are either disclosed in the above sub-sections headed "Connected Transaction" and "Continuing Connected Transactions" or exempt from the disclosure requirements under Chapter 14A of the Listing Rules.

DIRECTORS' REPORT**(E) SUPPLEMENTAL INFORMATION REGARDING CONNECTED TRANSACTIONS ON THE RENEWAL OF TENANCY AGREEMENT AND SITE AGREEMENT**

As announced on 26 February 2021, Guangzhou Tianhe Sub-Branch and Guangzhou Jiayao entered into a new Tenancy Agreement for the lease renewal of the YX Financial Tower Property as well as Guangzhou Branch and Guangzhou Yuyao entered into a new Site Agreement for the lease renewal of the Site for display of the Bank's logo at the rooftop of the Site.

Both Guangzhou Jiayao and Guangzhou Yuyao are subsidiaries of Yuexiu Property. Guangzhou Jiayao and Guangzhou Yuyao are principally engaged in the leasing and management of properties and Yuexiu Property is principally engaged in property development and investment, focusing on property development in Guangdong-Hong Kong-Macau Greater Bay Area, Eastern China Region, Central China Region, Northern China Region and Western China Region.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2020, the Group had approximately 1,758 employees (2019: 1,792 employees). Total staff cost for the year was approximately HK\$1,031,530,000 (2019: approximately HK\$1,020,196,000). Details of the staff cost (including Directors' emoluments) for the year are set out in note 13 to the consolidated financial statements.

The Bank has set up the Remuneration Committee (the Nomination Committee and the Remuneration Committee have been re-organized into the Nomination and Remuneration Committee with effect from 1 January 2021), responsibilities of which include reviewing the Group's remuneration policies by reference to the Bank's corporate goals and objectives. Details of the remuneration policies for employees are set out in section headed "Nomination and Remuneration Committee" under "Corporate Governance Report" of this Annual Report.

The Group operates two retirement schemes including defined benefit scheme and a Mandatory Provident Fund Scheme. Particular of these retirement schemes are set out in note 38 to the consolidated financial statements.

SIGNIFICANT CONTRACTS

During the year, the Bank entered into deposit transactions with GZYX Holdings, the ultimate holding company, and the related interest expenses accounted for approximately 2% of the Bank's profits before tax and loan transactions with Guangzhou Yuexiu Financial Leasing Co., Ltd., a fellow subsidiary, and the related interest income accounted for approximately 1% of the Bank's profits before tax. Such transactions were conducted on normal commercial terms and in the ordinary and usual course of business of the Bank, and fallen within the exemption for financial assistance under rule 14A.87 of the Listing Rules.

Saved as disclosed above and in the section headed "CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS" of this report, the Group and the Bank's controlling shareholder or its subsidiaries had not entered into any other contracts of significance or contract of significance of provision of service during the year.

MANAGEMENT CONTRACTS

Save for the service contracts, no other contracts concerning the management and/or administration of the whole or any substantial part of the business of the Bank were entered into or subsisting during the year.

DIRECTORS' REPORT

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$149,000 (2019: HK\$125,000).

PUBLIC FLOAT

Based on the information that is publicly available to the Bank and within the knowledge of the Directors of the Bank, as at the date of this report, the Bank has maintained the prescribed public float as required under the Listing Rules.

CORPORATE GOVERNANCE

Details of the corporate governance practices of the Bank are set out in the "Corporate Governance Report" in this Annual Report.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2020 have been audited by PricewaterhouseCoopers who shall retire and, being eligible, offer itself for re-appointment as the Bank's auditor at the 2021 AGM.

On behalf of the Board

Zhang Zhaoxing

Chairman

Hong Kong, 4 March 2021

CORPORATE GOVERNANCE REPORT

as of 4 March 2021

CORPORATE GOVERNANCE PRACTICES

Chong Hing Bank Limited (the "Bank") is an authorized institution supervised by the Hong Kong Monetary Authority (the "HKMA") under the Hong Kong Banking Ordinance (the "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" ("CG-1") under the Supervisory Policy Manual ("SPM") issued by the HKMA to its corporate governance structure and practices.

Throughout the year ended 31 December 2020, the Bank has complied with all 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 (the "Articles of Association").

DIRECTOR' SECURITIES TRANSACTIONS

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 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 year ended 31 December 2020.

BOARD OF DIRECTORS

ROLES AND RESPONSIBILITIES

The board of Directors of the Bank (the "Board") is ultimately responsible for the sustainable performance of the Bank and its subsidiaries (the "Group"), including the consistent achievement of business plans and compliance with statutory and corporate obligations. It is the ultimate decision-making body for all matters considered material to the Group and operates under defined terms of reference. The Board is also responsible for laying down strategic directions of the Group and overseeing their implementation by senior management, reviewing the operational and financial performance, and providing oversight to ensure that effective systems of risk management and internal control of the Group are in place. In addition, the Board also plays a leading role in establishing the Group's culture and behavioural standards that promote prudent risk-taking and fair treatment of customers.

CORPORATE GOVERNANCE REPORT

as of 4 March 2021

While the Board delegates the day-to-day management of the Group's business to senior management, specific matters are reserved for the Board's consideration and decision under its terms of reference including, but not limited to, the Group's long-term objectives and strategies, annual business plan and budget, capital planning and management policies, annual and interim financial reporting, major capital projects and investments, major acquisitions and disposals, overall risk management strategy and framework, share award scheme adopted by the Bank, oversee and lead the formulation of the Group's development strategies and goals of environmental, social and governance ("ESG") (including, without limitation, climate change, green and sustainable banking) as well as the governance framework of its related risk management functions and other significant ESG related issues, and corporate governance matters covering the development, implementation and monitoring of the corporate governance policies and practices.

During the year, the Board conducted a robust review of the Group's corporate governance framework and updated its terms of reference and other Board Committees' terms of reference to reflect best practices. The Board also adopted various policies as recommended by the Risk Committee, Remuneration Committee and Executive Committee and reviewed the Bank's compliance with the CG Code and the SPMs issued by the HKMA including the necessary disclosures in its reports to the shareholders of the Bank (the "Shareholders").

CHAIRMAN AND CHIEF EXECUTIVE

The roles of the Chairman and the Chief Executive of the Bank are separate, with a clear division of responsibilities as set out in the Board's terms of reference.

The Chairman of the Board, who is a Non-executive Director, is responsible for the leadership and effective running of the Board and for ensuring that decisions of the Board are taken on a sound and well-informed basis and in the best interest of the Group. With the support of the Executive Directors and the Company Secretary, the Chairman also ensures that all key and appropriate issues are discussed by the Board in a timely manner.

The Chief Executive, who is an Executive Director, leading the Group's management, is accountable to the Board for the overall implementation of the Bank's objectives, policies, major strategies and initiatives adopted by the Board. With the support of other Executive Director and senior management, he is also in charge of all day-to-day operations and administration, within the framework of the Group's policies, reserved powers and routine reporting requirements.

BOARD COMPOSITION

As of 31 December 2020, there are ten Board members comprising two Executive Directors, four Non-executive Directors and four Independent Non-executive Directors. There is a strong independent element on the Board that ensures the independence and objectivity of the decisions of the Board, as well as the thoroughness and impartiality of the Board's oversight of the management.

The composition of the Board is well balanced with each Director having sound board level experience and a diverse range of business, banking and professional expertise relevant to the business operations and development of the Group. Biographies of the Directors and relevant relationships (including financial, business, family or other material relationship) among the Directors, senior management and substantial shareholders (as defined in the Listing Rules) of the Bank are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 6 to 12 of this Annual Report.

CORPORATE GOVERNANCE REPORT

as of 4 March 2021

All Directors are expressly identified by reference to their roles and functions and whether they are Executive Directors, Non-executive Directors and Independent Non-executive Directors in all corporate communications of the Bank that disclose their names. An updated list of the Directors (including their roles and functions) of the Bank is available on the websites of Hong Kong Exchanges and Clearing Limited ("HKEX") and the Bank.

During the year ended 31 December 2020, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors, representing one-third of the Board, with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(1) and (2), and rule 3.10A of the Listing Rules. The Bank has received from each of the Independent Non-executive Directors an annual confirmation of his independence. Following the assessment of the independence of the Independent Non-executive Directors in accordance with the guidelines set out in rule 3.13 of the Listing Rules, the Board confirmed that all Independent Non-executive Directors continue to be independent.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Bank adopts a formal procedure in the selection of new Directors and nomination of retiring Directors for re-election by the Shareholders at general meetings.

The Nomination and Remuneration Committee identifies individual(s) suitably qualified to become director(s), having due regard to the strategic needs of the Bank and succession planning of the Board. The prospective director will first be assessed by the Nomination and Remuneration Committee, taking into account the balance of skills, knowledge, experience and diversity on the Board. Upon receiving the recommendation from the Nomination and Remuneration Committee, the proposed appointment will be considered and approved by the Board after due deliberation.

In accordance with the requirement under the Banking Ordinance, approval from the HKMA will be obtained for the appointment of new Directors.

All new Directors are subject to re-election by the Shareholders at the following annual general meeting after the appointment. None of the Non-executive Directors of the Bank were appointed for a specific term; however, all Directors are subject to retirement by rotation at the annual general meeting at least once every three years in accordance with the Articles of Association. The retiring Directors shall be eligible for re-election. The appointment of an Independent Non-Executive Director who has served on the Board for more than nine years will be subject to a separate resolution to be approved by shareholders. The Board will provide in the circular accompanying that resolution sent to shareholders the reason why the Board considers the Independent Non-Executive Director is still independent and its recommendation to shareholders to vote in favour of the re-election of such Independent Non-executive Director.

BOARD PROCESS

Board meetings shall be held at least four times a year and no less than once every quarter. Additional Board meetings will be held as and when warranted.

Notice of meetings will be given to all Directors at least 14 days before each regular meeting to give them an opportunity to include matters for discussion in the agenda. Meeting agenda and accompanying Board papers are normally sent to all Directors at least a week before the intended date of a Board meeting.

CORPORATE GOVERNANCE REPORT

as of 4 March 2021

The Board has a standing agenda of items to ensure that matters relating to overall strategies, business plans, interim and annual results, corporate governance review, risk management and compliance are covered in its meetings at appropriate intervals.

Apart from those regular financial and business performance reports submitted to the Board for deliberation at the regular meetings, the management provides monthly updates to the Board members with information on the Bank's latest financial performance and any material variance from its annual business plan to enable them to discharge their responsibilities. Management also submits to the Board members regular reports regarding auditor's and regulators' findings and recommendations as well as loans and advances to connected parties for regular review and monitoring, where appropriate.

During the year, there were five Board meetings, all of which were convened in accordance with the Articles of Association and attended by the Directors either in person or through electronic means of communication. In addition to the formal Board meetings, the Chairman has regular communications with Directors, occasionally without the presence of the Executive Directors and senior management, to consider issues in an informal setting. During 2020, the Chairman held a meeting that was attended only by Independent Non-executive Directors.

During the year, the Board also had a telephone conference with the representatives of HKMA to maintain a regular dialogue with the regulator where HKMA shared with the Board about HKMA's overall supervisory assessment of the Bank and their key supervisory focuses on the banking industry in general.

All Directors are entitled to have access to board papers and related materials. Where queries are raised by Directors, steps will be taken to respond as promptly and fully as possible. Any concerns raised or dissenting views expressed by the Directors in respect of any matter discussed at a Board meeting will be reflected clearly in the minutes. Full minutes are being kept by the Company Secretary and such minutes are open for inspection at any time during office hours on reasonable notice by any Director.

All Directors are entitled to seek independent professional advice for the purpose of discharging their duties at the Bank's expense.

All Directors have devoted sufficient time and attention to the affairs of the Bank.

The Bank has put in place procedures to deal with Directors' conflict of interest. Directors are required to declare their direct/indirect interests, if any, in any proposed transactions to be considered by the Board and, where appropriate, they should abstain from voting on the proposed transactions and should not be counted in the quorum.

Appropriate Directors' and Officers' liability insurance cover has been arranged to indemnify the Directors and Officers against liabilities arising out of corporate activities. The coverage and the sum insured for 2020/2021 was reviewed and renewed.

CORPORATE GOVERNANCE REPORT

as of 4 March 2021

ATTENDANCE RECORDS

The attendance records of individual Directors at the Board, Board Committee meetings and annual general meeting held in 2020 are as follows:

Names of Directors	2020									
	Number of Meetings Attended/Required Meetings to Attend									
	Board	Connected Party			Executive Committee	Nomination Committee ⁽²⁾	Remuneration Committee ⁽²⁾	Risk Committee	Information Technology Strategy Committee ⁽³⁾	Annual General Meeting
		Audit Committee	Transactions Committee	Executive Committee						
Chairman and Non-executive Director										
Mr ZHANG Zhaoxing	5/5	-	-	-	1/1	2/2	-	-	1/1	
Executive Directors										
Mr ZONG Jianxin	5/5	-	-	16/19	-	-	-	2/2	1/1	
Mr LAU Wai Man	5/5	-	-	18/19	-	-	-	2/2	1/1	
Non-executive Directors										
Mr LI Feng	5/5	-	-	-	-	-	4/4	2/2	1/1	
Mr CHOW Cheuk Yu Alfred	5/5	4/4	Nil ⁽¹⁾	-	-	2/2	-	-	1/1	
Ms CHEN Jing	4/5	3/4	-	-	-	-	-	-	1/1	
Independent Non-executive Directors										
Mr CHENG Yuk Wo	5/5	4/4	Nil ⁽¹⁾	-	1/1	-	4/4	-	1/1	
Mr MA Chiu Cheung Andrew	5/5	-	Nil ⁽¹⁾	-	1/1	2/2	-	-	1/1	
Mr LEE Ka Lun	5/5	4/4	-	-	-	2/2	4/4	2/2	1/1	
Mr YU Lup Fat Joseph	5/5	4/4	-	-	1/1	2/2	4/4	-	1/1	

Notes:

- (1) During the year, the Connected Party Transactions Committee has, by way of written resolutions, reviewed and recommended to the Board for approval of various connected transactions of the Group.
- (2) With effect from 1 January 2021, the Nomination Committee and the Remuneration Committee have been re-organized into the Nomination and Remuneration Committee.
- (3) With effect from 15 May 2020, the Special Board Committee (for an Information Technology Project) has been upgraded to the Information Technology Strategy Committee. The Special Board Committee (for an Information Technology Project) had held 3 meetings in 2020 before the upgrade.

CORPORATE GOVERNANCE REPORT

as of 4 March 2021

BOARD EFFECTIVENESS

During the year ended 31 December 2020, the Board conducted an annual review of its effectiveness by way of an evaluation survey (the "Survey") and received responses from all Directors. The scope of the Survey required Directors to consider the performance and effectiveness of the Board and its Board Committees including the composition, structure, dynamics, operation and diversity. The overall feedback was positive and encouraging. The evaluation revealed that the Board and all the Board Committees continue to perform well with a strong composition and operate to a high standard.

INDUCTION AND ONGOING DEVELOPMENT

The Bank provides each Director with personalized induction, training and development. On appointment, each new Director receives a comprehensive and tailored induction covering, among others, information about the Group's operations and business, the roles and responsibilities of the Board and its key Board Committees, the Bank's governance structure and practices, and the ambit of the internal audit and risk management functions.

On an ongoing basis, all Directors are provided with briefings and trainings in order to keep them continually updated on the Group's business and the latest developments of the Listing Rules and other applicable laws, rules and regulations to ensure the continued enhancement of their knowledge and skills. Such briefings and trainings are provided at the Bank's expense.

During the year, the Bank had organized a one and a half day of "Board Strategy Meeting" and had provided a number of trainings and briefings to the Directors which covered topics on the Bank's corporate culture, latest governance and regulatory updates and risk management.

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All Directors are required to provide their training records to the Bank on an annual basis. The training received by the Directors during the year under review is summarized as follows:

Names of Directors	Regulatory Updates	Articles/Seminars/ Conferences relevant to the Bank's business and corporate governance
<i>Chairman and Non-executive Director</i>		
Mr ZHANG Zhaoxing	✓	✓
<i>Executive Directors</i>		
Mr ZONG Jianxin	✓	✓
Mr LAU Wai Man	✓	✓
<i>Non-executive Directors</i>		
Mr LI Feng	✓	✓
Mr CHOW Cheuk Yu Alfred	✓	✓
Ms CHEN Jing	✓	✓
<i>Independent Non-executive Directors</i>		
Mr CHENG Yuk Wo	✓	✓
Mr MA Chiu Cheung Andrew	✓	✓
Mr LEE Ka Lun	✓	✓
Mr YU Lup Fat Joseph	✓	✓

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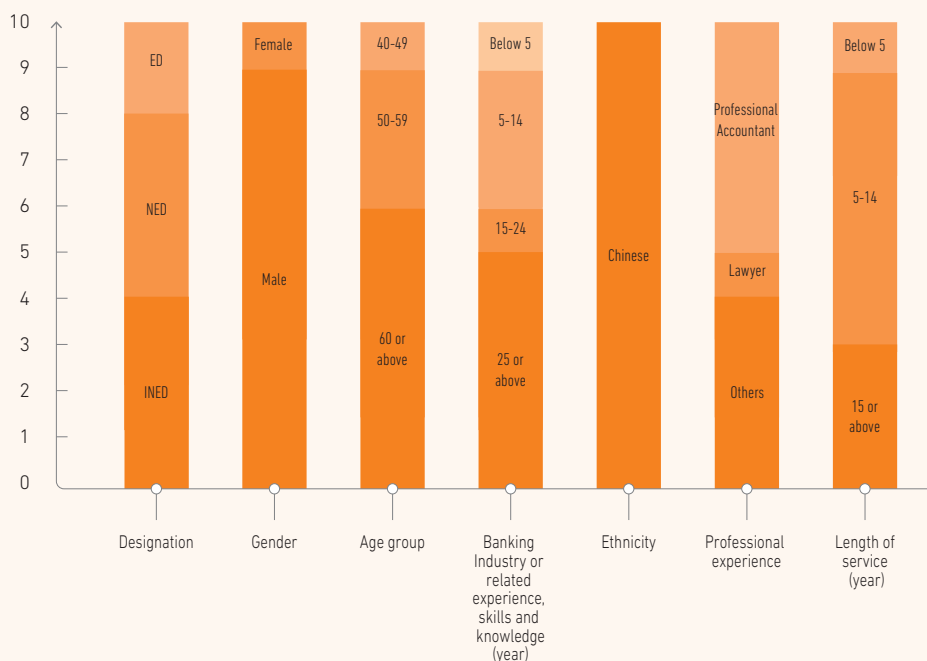
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POLICY STATEMENT ON BOARD DIVERSITY

The Bank recognizes and embraces the benefits of having a Board composed of a diverse range of experience, which is an essential element in supporting the attainment of the Bank’s strategic objectives and achieving sustainable commercial success of the Bank.

Board diversity has been considered from various aspects in designing the Board’s composition, including gender, age, cultural and educational background, industry or related experience, ethnicity, professional experience, skills, knowledge and length of service (the “Diversity Aspects”). All Board members’ appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. During the year, the Nomination Committee had reviewed the Board diversity based on the Diversity Aspects and considered that it had a balanced diversity. As at 31 December 2020, the composition of the Board was as follows:

No. of Directors



The diverse culture helps promote critical thinking and foster constructive debate, thereby enabling the Board to provide strategic direction to the management and to ensure the decision-making process is fair and balanced. All of these are essential in achieving a sustainable and balanced development of the Group.

This policy statement is not intended to, and does not, either enlarge or diminish the responsibilities of the Directors under the Articles of Association and such other relevant laws, rules, regulations, codes, guidelines, practice notes, circulars and the like. This policy statement is, however, intended to serve as a source of guiding principles for Directors to take appropriate actions to achieve the aims of board diversity as outlined above. The Board will review and, where appropriate, revise from time to time this policy statement in light of experience, evolving standards of corporate governance and any other changing circumstances.

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COMPANY SECRETARY

All Directors have access to the advice and services of the Company Secretary. The Company Secretary is responsible for ensuring the Board policies and procedures are followed and for facilitating information flows and communications among Directors as well as with Shareholders and Management.

The Company Secretary's biography is set out in the "Biographical Details of Directors and Senior Management" section on page 12 of this Annual Report. During the year of 2020, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

BOARD COMMITTEES

The Board has delegated its authorities to various committees, namely the Audit Committee, the Connected Party Transactions Committee, the Executive Committee, the Nomination and Remuneration Committee*, the Risk Committee and the Information Technology Strategy Committee** which operate under defined Terms of Reference. Composition and Terms of Reference of the Board Committees are reviewed and updated regularly by the Board to ensure that they remain appropriate and in line with the Group's business and changes in governance practices.

Terms of Reference of the respective Board Committees are available on the websites of HKEX and the Bank.

Each Board Committee has been provided with sufficient resources to discharge its duties.

* *With effect from 1 January 2021, the Nomination Committee and the Remuneration Committee have been re-organised into the Nomination and Remuneration Committee.*

** *With effect from 15 May 2020, the Special Board Committee (for an Information Technology Project) has been upgraded to the Information Technology Strategy Committee.*

AUDIT COMMITTEE

The Audit Committee currently consists of five members, including three Independent Non-executive Directors and two Non-executive Directors.

Under its Terms of Reference, the Audit Committee is required, among other things, to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with the applicable standards, to review any engagement of external auditor for the provision of non-audit services, to review the half-year and annual reports and accounts before submission to the Board, to receive audit reports and review the external auditor's management letter, to review audit and/or investigation reports submitted by the Chief Auditor, to review the HKMA's on-site examination reports and bring major findings to the attention of the Board, and to assess and consider the adequacy and effectiveness of the Group's systems of internal control, financial reporting and controls, risk management and regulatory compliance.

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Four committee meetings were held in 2020 and the attendance records of the Audit Committee members are set out on page 55 of this Annual Report. The major work performed by the Audit Committee during the year included:

- (i) met with the external auditor and the Bank's senior executives in charge of Finance and Capital Management function to discuss the financial statements for the year ended 31 December 2019 and for the six months ended 30 June 2020;
- (ii) reviewed and discussed with the external auditor to ensure that the Group's financial statements had been prepared in accordance with the accounting principles generally accepted in Hong Kong;
- (iii) reviewed the re-appointment of the Bank's external auditor, including its independence and objectivity, and the scope of audit services;
- (iv) reviewed the audit fees payable to the external auditor and recommended to the Board for approval, and reviewed the annual non-audit services provided by the external auditor to the Group and the related fees;
- (v) reviewed the external auditor's audit strategy and plan of the Group for the year of 2020 and the assessment of the sufficiency of the internal control of the Group for the year of 2019;
- (vi) reviewed the report for the year 2019 and the report for the six months ended 30 June 2020 issued from the external auditor to the Audit Committee;
- (vii) reviewed the internal control issues and the internal audit function of the Group, covering the annual internal audit plan, revision on the amendment of internal audit procedure, staffing, resources and performance of Internal Audit Division, audit findings and recommendations raised in the internal audits undertaken, and the implementation status of related audit recommendations;
- (viii) approved the internal audit plan for 2020;
- (ix) reviewed and adopted the advice provided by external quality independent assurance consultant to further enhance the effectiveness of the Audit Committee and the internal audit function, approved the revised Internal Audit Policy and recommended amendments to its Terms of Reference to the Board for approval;
- (x) reviewed the independent auditor's report of "Commercial Credit Risk Management" of the Bank;
- (xi) reviewed the amendment on the Bank's procedure for implementing the quarterly regulatory disclosure pursuant to the Banking (Disclosure) Rules and recommended to the Board for adopting the procedure;
- (xii) reviewed the Bank's progress for the adoption of HKFRS 9 (Financial Instruments); and
- (xiii) reviewed the structure, scope of work, qualification and experience of employee and employee's training course of the Bank's Finance and Capital Management Division, and confirmed that the Bank has sufficient resources in accounting and financial reporting to deal with the daily work.

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REVIEW OF FINANCIAL RESULTS

The Audit Committee had reviewed the Group's financial statements for the year ended 31 December 2020 in conjunction with the Bank's external auditor. Based on this review and discussions with the Management, the Audit Committee was satisfied that the Group's financial statements for the year ended 31 December 2020 were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2020. The Audit Committee therefore recommended the Group's financial statements for the year ended 31 December 2020 be approved by the Board.

AUDITORS' REMUNERATION

The remuneration paid and payable to the Group's auditor, PricewaterhouseCoopers, for 2020 amounted to:

	HK\$'000
Audit services and interim review	8,418
Tax service	372
Other service	1,120
Total	9,910

CONNECTED PARTY TRANSACTIONS COMMITTEE

The Connected Party Transactions Committee currently consists of five members, including one Non-executive Director, two Independent Non-executive Directors, the Chief Financial Officer and the Chief Risk Officer of the Bank.

Under its Terms of Reference, the Connected Party Transactions Committee is responsible for reviewing the robustness of the Bank's control framework to ensure proper compliance with all legal and regulatory requirements, Listing Rules together with accounting requirements (promulgated in Hong Kong and other jurisdictions) as may be applicable and approving significant connected transactions.

During the year, no physical committee meeting was held while the Connected Party Transactions Committee, by written resolutions, had reviewed and recommended to the Board for approval of various connected transactions between the Group and the members of 廣州越秀集團股份有限公司 (Guangzhou Yue Xiu Holdings Limited*), including the granting of credits and loans and the renewal of Information Technology Framework Agreement.

* for identification purpose only

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EXECUTIVE COMMITTEE

The Executive Committee currently consists of nine members, including two Executive Directors and other senior executives of the Bank.

The Executive Committee exercises its powers, authorities and discretions as delegated by the Board to manage the day-to-day operations of the Group in accordance with its Terms of Reference and such other policies and directives as the Board may determine from time to time. The Executive Committee demonstrates its commitment and conviction in implementation of proper bank culture and values at all level of the Group, sets appropriate "tone from the top" and leads by example.

The Executive Committee has established the Asset and Liability Management Committee, the Expenses Control Committee, the New Product Approval Committee, the Disciplinary Committee, the Information Technology Committee, the Risk Management Committee, IT Project Steering Committee and the Interest Rate Benchmarks Reform Project Steering Committee with defined Terms of Reference that are in line with best practices. The above specialized sub-committees report directly to the Executive Committee and are responsible for overseeing assets and liabilities management, expenses control, approval of new products and services, staff disciplinary-related issues, overall information technology strategy, major risk and compliance issues as well as specific projects of the Group.

19 Executive Committee meetings were held in 2020 and the attendance records of the Executive Directors are set out on page 55 of this Annual Report.

NOMINATION AND REMUNERATION COMMITTEE

The Nomination Committee and the Remuneration Committee of the Bank have been re-organised into the Nomination and Remuneration Committee with effect from 1 January 2021 (the "Re-organisation") which currently consists of six members, including four Independent Non-executive Directors and two Non-executive Directors.

Nomination Committee before the Re-organisation

Prior to the Re-organisation, the Nomination Committee consisted of four members, including three Independent Non-executive Directors and one Non-executive Director.

Under its Terms of Reference, the Nomination Committee is responsible for, among others, reviewing and making recommendations to the Board on the structure, size and composition of the Board and identifying potential candidate suitably qualified to become director of the Bank.

One committee meeting was held in 2020 and the attendance records of the Nomination Committee members are set out on page 55 of this Annual Report. The primary duties performed by the Nomination Committee during the year included:

- (i) made recommendation to the Board on the extension of the employment contract of Mr Lau Wai Man as Executive Director and Deputy Chief Executive of the Bank and his retirement age;
- (ii) made recommendation to the Board on the appointment of independent non-executive director of the Bank;
- (iii) made recommendation to the Board on the promotion of the Head of Legal and Compliance Division of the Bank;

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- (iv) reviewed the structure, size and composition (including skills, knowledge, experience and diversity) of the Board and its committees and made recommendations to the Board;
- (v) reviewed the efficiency and effectiveness of the functioning of the Board and its committees;
- (vi) assessed and confirmed the independence of the Independent Non-executive Directors of the Bank;
- (vii) made recommendation on the nomination of Directors for the Board to recommend to the Shareholders for re-election at the annual general meeting held on 15 May 2020 ("2020 AGM"); and
- (viii) approved the updated Senior Management Succession Policy and reported to the Board.

Remuneration Committee before the Re-organisation

Prior to the Re-organisation, the Remuneration Committee consisted of five members, including three Independent Non-executive Directors and two Non-executive Directors.

Authority and Responsibility

Under its Terms of Reference, the Remuneration Committee is responsible for, among others, making recommendation and reviewing the Remuneration Policy of the Group by taking into account the pay and conditions across the Group's individual remuneration packages for Directors, Senior Management and Key Personnel as well as those in positions of significant influence and those having an impact on the Group's risk profile; ensuring that the remuneration frameworks and decisions shall be developed in a manner that is in line with the Group's risk appetite, risk culture and long-term interests; ensuring that no individual Director, Chief Executive or any of their associates will be involved in deciding his/her own remuneration; and assisting the Board in carrying out the Bank's Corporate Culture-related duties.

Remuneration Structure

The remuneration system of the Group is composed mainly of fixed remuneration (cash-based) with performance based variable remuneration (discretionary cash bonus and/or other incentives in form of award shares (where applicable)) which does not only conform with the risk appetite, align with the long-term value creation and time horizon of risk of the Group to grow steadily and prudently by encouraging long-term performance rather than short-term risk taking, but also motivates, recognizes and rewards both outstanding individual contribution, sound team performance and positive behaviors. The proportion and amount of fixed and variable remuneration shall vary according to an employee's seniority, role and responsibilities within the Group, also the market benchmarking and trend.

Performance Management

The Group uses a Balanced Scorecard ("Scorecard") approach to measure and manage performance at the levels of the Group, business/functional units and individual employees. With reference to corporate goals and objectives at the beginning of financial year and when necessary, the Remuneration Committee reviews the Key Performance Indicators ("KPIs") and the corresponding target levels of the Group and recommends to the Board for approval. The targets of the Group will be cascaded down under the Scorecard Framework whereby the performance would be assessed from the four key quadrants of "financial", "customer", "internal process" and "people management".

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Each key quadrant of the Scorecard is comprised of a set of KPIs to assess the performance according to the specific areas of responsibility of the Group, business/functional units and individual employees; both financial and non-financial performance indicators are required to ensure a balanced evaluation. To ensure independence, financial KPIs should not be applicable to those risk control unit/personnel whose performance should be evaluated by their performance objectives and independent of the performance of the business areas which they oversee.

To put the principle of aligning performance and remuneration with risk into practice, on top of the mentioned KPIs, a “Compliance and Risk Control” dimension is in place in the Scorecard to take into account any risk factors, control, ethics and compliance event, also its severity and impact to be fully reflected on the performance rating of the Group, business/functional units and individual employees.

In the respect of risk management, the Bank has developed a complete Risk Appetite Statement and Key Risk Indicators as the basis for monitoring, assessing and controlling the Group’s risk profile. In the Risk Modifier Framework of the Corporate Scorecard for 2020, six major areas including credit risk, liquidity risk, operational risk, information technological risk, compliance risk and risk culture are taken into account as a Corporate Scorecard Risk Modifier.

The Compliance and Risk Control assessment at individual level covers the employee’s compliance, risk control and ethical standard. This includes, but is not limited to, the performance of the assessed employee in controlling various risks (e.g. credit, compliance, operations and reputation, etc.), the risk management ratings, compliance reports or audit reports related to the performance of the assessed employee, verbal or written warnings, etc.

Compliance and Risk Control Modifier can be applied to adjust the annual performance score in response to any relevant performance. Poor performance can result in a deduction of the total performance score, which in turn affects the magnitude and amount of variable remuneration.

Since 2018, under the current performance management system, apart from evaluating individuals’ KPIs in the Scorecard, there is a separate assessment of adherence to “Corporate Culture and Values”. The assessment indicators are designed and matched with reference to the Group’s “Management Concepts” and “Enterprise Spirit” and the six “Core Competencies” and their related behavioral indicators, so as to ensure employees and appraising managers clearly understand the required behaviors and attitude to achieve the defined corporate culture and core values of the Group.

The final performance rating of the staff (including the “Balanced Scorecard” and “Corporate Culture and Values”) will be a major consideration factor of their salary review and variable remuneration (if applicable).

Award of Variable Remuneration

The Bank’s variable remuneration structure consists of discretionary cash bonus and/or other incentives in form of award shares (where applicable).

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The size of the overall variable remuneration pool of the Group is determined according to the compliance/risk adjusted performance of the Group together with the consideration of all necessary factors (including capital position, market and peers business conditions, market competitiveness, material or potential risks involved in the business, and the extent to which the risks affect the Group as a whole), as recommended by the Remuneration Committee to the Board for approval and is subject to the Board's discretion.

The subsequent allocated quota of variable remuneration to each business/functional unit is based on the overall performance of the relevant business/functional unit; while the performance assessment of the employees is based on the final compliance/risk-adjusted performance rating in the individual Scorecards and the Corporate Culture and Values rating.

Poor performance (either financial or non-financial) will result in a reduction or elimination of discretionary variable remuneration at any level. Adverse performance in non-financial factors, where appropriate, should override outstanding financial achievements. The overall performance of a business/functional unit or an individual employee could be thoroughly assessed (taking into account compliance and risk factors), rather than solely relying on its/his/her financial performance. This ultimately helps mitigating the Group's risk exposure and aligns with its long-term value creation.

To ensure independence, the variable remuneration of risk control personnel is determined in accordance with their performance objectives and commensurate with their key role in the Group. To avoid possible undue influence from business units, risk control personnel are compensated in a manner that is independent of the performance of the business unit which they oversee.

Share Award Scheme

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

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

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

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Deferral Arrangements

The award of variable remuneration to employee is subject to deferment in such a manner as determined by the Remuneration Committee. Deferral of the payment of a portion of variable remuneration will allow employees' performance, including the associated risks, to be observed and validated over a period of time before the payment is actually made. In general, when the overall level of their variable remuneration exceeds a certain multiple of their fixed salary or a certain amount, a pre-defined portion is subject to deferment. Deferral period can last for 4 years the longest.

The award of deferred portion is subject to a minimum vesting period and pre-defined vesting conditions as determined by the Remuneration Committee and communicated to all relevant employees. Deferred portion is awarded in such a manner so as to align the relevant employees' variable awards with long-term value creation and the time horizons of risk. The future performance (both financial and non-financial) of the Group, relevant business/functional units, and individual employees is taken into consideration when approving the vesting arrangement. In circumstances where it is later established that any performance measurement for a pre-defined year was based on data that is later proven to have been manifestly misstated, or it is later established that the relevant employee has committed fraud, malfeasance, or a violation of internal control policies, any unvested portions of the deferred variable portion (relating to that particular year in question) should be forgone, either in part or in whole, as determined by the Remuneration Committee.

External Remuneration Consultant

The Remuneration Committee is authorised by the Board to seek professional advice as it deems appropriate and is responsible for the selection and appointment of consultants to advise it on all aspects of remuneration.

With the objective to motivate and retain key talents, the Group has appointed PricewaterhouseCoopers (PwC) as the professional consultant to provide advice and the associated consulting services for the Group's consideration on the Share Award Scheme's design framework.

PwC is appointed by the Group to conduct an independent review of the remuneration system and practices of the Group for 2020 against "Guideline on a Sound Remuneration System" ("CG-5") under the SPM issued by the HKMA.

Summary of Work

Two Committee meetings were held in 2020 and the attendance records of the Remuneration Committee members are set out on page 55 of this Annual Report. The major works performed by the Remuneration Committee during the year included:

- (i) reviewed the salary adjustment proposal for 2020 and the variable remuneration for 2019 for the Executive Directors, Senior Management and Key Personnel, and recommended to the Board;
- (ii) proposed the remuneration packages for a number of Key Personnel, and recommended to the Board;
- (iii) reviewed the Bank-level 2018 deferred variable remuneration vesting arrangement and recommended to the Board;
- (iv) reviewed the performance indicators of the Corporate Balanced Scorecard of the Bank for 2020 and 2021 and the estimated achievement of targets for 2020; reviewed the proposal for the 2020 discretionary variable remuneration pool and Mainland relationship managers' incentive framework;

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- (v) reviewed the Bank-level 2021 annual salary review proposal;
- (vi) reviewed the proposal of the Share Award Scheme and the adoption of the Scheme for performance year 2019 and recommended to the Board; reviewed the proposed list of eligible participants and the amount of award shares to be granted to eligible participants under the Share Award Scheme for 2019 and recommended to the Board; also reviewed the proposed list of eligible participants of the Scheme for 2020;
- (vii) reviewed the proposal of the 「開門紅」 incentive plan for 2021 and recommended to the Board;
- (viii) reviewed the update of the Remuneration Policy and its appendix with regards to the new Share Award Scheme and the restructuring of the Bank, and recommended to the Board;
- (ix) received the report on Independent Review of the Group for 2019 against CG-5 by Internal Audit Division; and
- (x) reviewed the progress updates and the implementation of Chong Hing Bank Corporate Culture and reported to the Board.

The emolument payable to the Directors will depend on their respective contractual terms under employment contracts, if any, and the recommendations made by the Remuneration Committee. Details of the Directors' emolument are set out in note 42 to the Consolidated Financial Statements. According to the module on CG-5 and the Remuneration Policy of the Group, Senior Management refers to Executive Directors, Chief Executive, Deputy Chief Executives and chief functional officers; Key Personnel refers to individual positions whose duties or activities involve the assumption of material risk or the taking on of material exposures on behalf of the Group and Heads of control functions. There are currently 6 and 12 employees categorised as Senior Management and Key Personnel respectively. The aggregate payouts for these senior executives for 2019 and 2020 are shown in the tables below in accordance with the disclosure requirement under paragraph 3.2.3 of CG-5 issued by the HKMA on 12 March 2015.

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The remuneration for the Senior Management and Key Personnel for the years ended 31 December 2019 and 2020 is as follows:

Senior Management	Year ended 31 December 2020		Year ended 31 December 2019	
	HK\$'000		HK\$'000	
	Non-deferred	Deferred	Non-deferred	Deferred
Fixed remuneration:	33,278	—	30,031	—
– Cash	33,278	—	30,031	—
– Shares	N/A	N/A	N/A	N/A
– Others	N/A	N/A	N/A	N/A
Number of beneficiaries	7	—	9	—
Variable remuneration:	3,455	3,892	7,060	876
– Cash	3,455	—	7,026	876
– Shares	—	3,892	N/A	N/A
– Others	—	—	34	—
Number of beneficiaries	7	6	7	4
Vested				
– Cash	—	876	—	3,205
– Shares	—	—	N/A	N/A
Unvested				
– Cash	—	—	—	—
– Shares	—	—	N/A	N/A
Reduced through performance adjustments				
– Cash	—	—	—	—
– Shares	—	—	N/A	N/A

Remarks:

- (1) The above disclosed figures of vested cash bonus for 2019 and 2020 relate to 2018 and 2019 variable remuneration respectively.
- (2) The above disclosed figure of vested cash bonus for 2020 includes the vested amount of a former Senior Management who left the Group in January 2020.
- (3) There was an additional position categorized as Senior Management in 2019. The above disclosed figures for 2019 consist of the remuneration of this additional position.
- (4) There was a transition of Deputy Chief Executive ("DCE") and Chief Risk Officer ("CRO") in the Group in November and May 2019 respectively. The above disclosed figures for 2019 consist of the total remuneration of the former and current DCEs & CROs of their service tenures.

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Key Personnel	Year ended 31 December 2020		Year ended 31 December 2019	
	HK\$'000		HK\$'000	
	Non-deferred	Deferred	Non-deferred	Deferred
Fixed remuneration:	32,052	—	36,834	—
– Cash	32,052	—	36,834	—
– Shares	N/A	N/A	N/A	N/A
– Others	N/A	N/A	N/A	N/A
Number of beneficiaries	14	—	13	—
Variable remuneration:	4,661	5,795	8,680	1,930
– Cash	4,661	659	8,582	1,930
– Shares	—	5,136	N/A	N/A
– Others	—	—	98	—
Number of beneficiaries	9	11	13	5
Vested				
– Cash	—	2,493	—	3,380
– Shares	—	—	N/A	N/A
Unvested				
– Cash	—	—	—	655
– Shares	—	—	N/A	N/A
Reduced through performance adjustments				
– Cash	—	—	—	—
– Shares	—	—	N/A	N/A

Remarks:

- (1) The above disclosed figure of deferred shares of variable remuneration for 2020 includes the shares grant of two former Key Personnel who left the Group in September and December 2020.
- (2) There was a transition of the Head of Personal Banking Division in the Group in 2020. The above disclosed figures for 2020 consist of the total remuneration of the former and current Head of their service tenures.
- (3) The above disclosed figure of vested cash bonus for 2019 includes the vested amount of a former Key Personnel who left the Group in November 2018.
- (4) The above disclosed figure of vested cash bonus for 2019 relate to 2018 variable remuneration; and the figure of vested cash bonus for 2020 relate to 2018 and 2019 variable remuneration.
- (5) The above disclosed figure of unvested cash bonus for 2019 relates to 2018 variable remuneration.

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	Year ended 31 December 2020 HK\$'000	Year ended 31 December 2019 HK\$'000
Guaranteed Bonus	—	—
Number of beneficiaries	—	—
Sign-on Awards	—	720
Number of beneficiaries	—	1
Severance Payment/Long Service Payment	—	—
Number of beneficiaries	—	—

The Remuneration Committee will continue to review and enhance the Group's Remuneration Policy in accordance with the principles and spirit of CG-1 and CG-5, with particular attention paid to risk adjustments to performance assessment; also alongside with the development of labor market, especially in the development of financial services sector, to evaluate and refine the remuneration provision of the Group so as to ensure that the rewards are competitive for the retention of talents.

RISK COMMITTEE

The Risk Committee currently consists of four members, including three Independent Non-executive Directors and one Non-executive Director.

Under its Terms of Reference, the Risk Committee is required, among other things, to advise the Board on the overall risk appetite/tolerance and risk management strategies of the Group, and to oversee senior management's implementation of those strategies that are established and approved by the Board and aligned with the Bank's overall business objectives. In performing its role, the Risk Committee is supported by the Bank's Risk Management Committee and its specialized sub-committees.

Four committee meetings were held in 2020 and the attendance records of the Risk Committee members are set out on page 55 of this Annual Report. The major duties performed by the Risk Committee during the year included:

- (i) reviewed the overall risk management strategies and risk appetite/tolerance statement(s) of the Group and made recommendation to the Board for approval, and received regularly the risk level rating for each risk type;
- (ii) reviewed and assessed regularly the adequacy and effectiveness of the Group's risk management framework, internal control systems and risk management policies, procedures and systems, and monitored their effective operation, implementation and maintenance;
- (iii) monitored the implementation progress of the risk management module under the substantial upgrade of the Bank's information technology system;

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- (iv) monitored the implementation progress of the rectification measures taken by the Bank in response to the findings of the thematic examinations or meetings on risk-related matters conducted by the HKMA and China Banking and Insurance Regulatory Commission;
- (v) reviewed and discussed the independent auditor's report of "Commercial Credit Risk Management" of the Bank;
- (vi) reviewed the governance structure of the Bank;
- (vii) approved the Stress Testing Policy, the Internal Stress-Test Methodology and the quarterly report of the stress-testing, and reviewed the Capital Management Policy, the Capital Contingency Plan, the Recovery Plan and the internal capital adequacy assessment process (ICAAP) of the Bank and made recommendation for the Board's approval;
- (viii) reviewed the process updates of the risk culture related programmes of the Bank;
- (ix) provided oversight on the independence of staff members responsible for implementing risk management systems and controls;
- (x) reviewed the Compliance Policy, Business Continuity Planning Policy and the Policy for Counterparty Credit Risk Management of the Bank and made recommendation for the Board's approval;
- (xi) reported significant risk management issues to the Board as set out in its Terms of Reference; and
- (xii) reviewed its Terms of Reference and recommended amendments to the Board for approval.

During the year under review, the Risk Committee held meeting with the Bank's Chief Risk Officer without the Executive Directors present.

INFORMATION TECHNOLOGY STRATEGY COMMITTEE

The Board established the Special Board Committee (for an Information Technology Project) in May 2015 to oversee the Bank's information technology project. Since 15 May 2020, the Special Board Committee (for an Information Technology Project) has been upgraded to the Information Technology Strategy Committee which currently consists of five members, including one Independent Non-executive Director, one Non-executive Director, two Executive Directors and the Chief Information Officer of the Bank.

The Committee implements the Bank's "14th Five-Year" information technology strategy blueprint and goals as approved by the Board, and is responsible for supervising the Bank to drive forward-looking financial technology thinking in order to foster the Group's strategies on information technology infrastructure and digital development, as well as to enhance the Bank's overall capability on information technology and operational efficiency in an orderly manner. The Committee regularly examines and receives reports from the Bank's Chief Information Officer in respect of the progress of the Group's information technology strategies and initiatives, and assists the Board in evaluating the implementation and execution of the Bank's information technology strategies and makes recommendations to the Board.

CORPORATE GOVERNANCE REPORT

as of 4 March 2021

In 2020, the former Special Board Committee (for an Information Technology Project) held three committee meetings and the Information Technology Strategy Committee held two committee meetings after the upgrade. The attendance records of the Information Technology Strategy Committee members are set out on page 55 of this Annual Report. The major duties performed by the Information Technology Strategy Committee during the year included:

- (i) reviewed and oversaw the implementation progress of the Bank's new Core Banking System (Phase 2);
- (ii) discussed the establishment of Information Technology Strategy Committee and endorsed its Terms of Reference;
- (iii) discussed the Bank's information technology strategy for 2021 – 2025 and made recommendation to the Board for approval;
- (iv) discussed the annual work plan and budget for the Bank's major information technology development for 2021 and made recommendation to the Board for approval; and
- (v) reviewed its Terms of Reference and recommended amendments to the Board for approval.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance, financial results and prospects to Shareholders and other stakeholders in a timely manner. The annual and interim results and other discloseable financial information of the Bank are published in accordance with the requirements of the Listing Rules and other applicable regulations and industry best practice.

Management provides the Board with sufficient explanation and information to enable it to make an informed assessment of the Group's financial and other information put before it for approval.

The Directors also receive monthly financial and business updates with information on the Bank's latest financial performance and any material variance from its annual business plan to enable them to discharge their duties and responsibilities.

The Directors acknowledge their responsibility for preparing the Bank's consolidated financial statements and ensuring that the preparation of the Bank's consolidated financial statements is in accordance with the relevant requirements and applicable standards. As at 31 December 2020, the Directors were not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern.

The statement of the Bank's external auditor concerning its reporting responsibilities on the Bank's consolidated financial statements and the key audit matters identified in its audit are set out in the "Independent Auditor's Report" on pages 77 to 81 of this Annual Report.

CORPORATE GOVERNANCE REPORT

as of 4 March 2021

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is responsible for the Group's risk management and internal control systems and reviewing their effectiveness. Although such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide reasonable but not absolute assurance against material misstatement or loss, the Bank is committed to establishing and maintaining appropriate and effective risk management and internal control systems so as to safeguard Shareholders' investment and the Bank's assets.

The Bank's risk governance framework is substantiated by the clearly defined three lines of defence which are independent from each other. In short, the first line of defence is provided by the business units where risks are taken. The second line of defence is provided by the risk management and compliance functions that are responsible for overseeing the Bank's risk-taking activities and ensuring compliance with laws and regulations. The third line of defence is provided by the Internal Audit Division which is responsible for providing assurance on the effectiveness of the Bank's risk management framework.

The risk management and internal control systems of the Group comprise comprehensive policies and standards under a well-established organisational structure:

- Policies and procedures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; for ensuring the reliability of financial information used within the business or for publication; and for ensuring compliance with applicable laws, rules and regulations. Systems and procedures are also in place to identify, evaluate, manage and report on the major types of risks, including credit, liquidity, market, operational, legal and reputational risks. All these policies and systems are regularly reviewed to reflect changes in markets, products and best practices.
- Areas of responsibilities of each business/functional unit are clearly defined to ensure effective checks and balances. Each unit is responsible for the assessment of individual types of risks arising under its areas of responsibilities, the management of the risks in accordance with the established risk management procedures, and the reporting on such risk management issues.
- Specialised committees are established for the oversight and monitoring of major risk areas. Regular risk management reports prepared by relevant business and functional units are submitted to the Asset and Liability Management Committee, the Risk Management Committee, the Executive Committee and the Risk Committee, and ultimately to the Board for oversight and monitoring of the respective types of risks on an ongoing basis. The Bank's risk management policies and major control limits are reviewed and recommended by the relevant specialised committees to the Board for approval, and are monitored and reviewed regularly according to established policies and procedures.

CORPORATE GOVERNANCE REPORT

as of 4 March 2021

- The Internal Audit Division's role as the third line of defence is independent of the first and second lines of defence, with the Bank's Chief Auditor reporting directly to the Audit Committee. Pursuant to a risk-based approach, the Internal Audit Division conducts independent and objective assessment of the design and implementation of the risk management and control mechanisms of the Bank's business and functional units in order to identify any inadequacy. Results of audit work are reported regularly to the Audit Committee. In 2020, the Bank has engaged an external consultant Protiviti to perform an external quality assurance review of the Internal Audit Division. The review report concluded that the Internal Audit Division has complied with the HKMA SPM IC-2 Internal Audit Function requirements, and the International Standards for the Professional Practice of Internal Auditing.
- The Bank has established a whistleblowing policy which encourages employees to raise concerns, in confidence, about possible improprieties in any matter related to the Bank. The Bank treats all information received confidentially and protects the identity and the interests of all whistleblowers.

The Board has, through the Audit Committee and the Risk Committee, monitored the performance of the Group's risk management and internal control systems on an ongoing basis and also completed the 2020 annual review of their effectiveness, which covered such material aspects as financial, operational and compliance controls. The Board has received a confirmation from management on the effectiveness of the Group's risk management and internal control systems and is satisfied that such systems, including the resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions, are effective and adequate.

COMMUNICATIONS WITH SHAREHOLDERS

EFFECTIVE COMMUNICATION

The Bank recognizes the importance of communication and undertakes to maintain an ongoing dialogue with the Shareholders through general meetings, press releases, announcements and corporate communications such as annual report, interim report and circulars. The Board is committed to the timely disclosure of information. The latest information regarding the Bank's activities, announcements, circulars, press releases and corporate communications is made available on the Bank's website at www.chbank.com in a timely manner. The Shareholders' calendar containing important dates for Shareholders is set out on page 14 of this Annual Report for the Shareholders' reference.

A Shareholders' Communication Policy was adopted by the Board and such policy will be reviewed on a regular basis to ensure its effectiveness. Shareholders and other stakeholders may at any time send their enquires and concerns to the Board by addressing them to the Chief Financial Officer by post to the Bank's registered office at Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong or by email to info@chbank.com.

GENERAL MEETINGS

The Bank aims at maintaining an ongoing dialogue with the Shareholders and, in particular, using annual general meetings or other general meetings as a forum for effective communication with the Shareholders. The Chairman of the Board and Chairmen of the Board Committees are available to answer questions from the Shareholders in relation to the performance of the Bank at the annual general meetings. In addition, the external auditor of the Bank is invited to attend the annual general meetings to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and the auditor's independence. Separate resolutions are proposed at general meetings on each substantial issue, including the election and re-election (as the case may be) of individual Directors.

CORPORATE GOVERNANCE REPORT

as of 4 March 2021

Poll results in respect of the resolutions proposed at the 2020 AGM were published on the websites of HKEX and the Bank on the same day.

The 2021 annual general meeting will be held on 14 May 2021, and the relevant details are set out in the circular to the Shareholders sent together with this Annual Report.

DIVIDEND POLICY

The Board has established a comprehensive Dividend Policy for the purpose of ensuring the dividend distributions of the Bank are conducted in accordance with the Articles of Association, applicable laws and regulations and also meet the expectation of relevant regulatory bodies. The Dividend Policy will be reviewed regularly in accordance with changes in regulatory requirements, economic and commercial environment. The Bank is dedicated to striking the right balance between reinvesting capital in the Bank's operations and providing returns to Shareholders.

VOTING PROCEDURES AT GENERAL MEETINGS

All resolutions put to vote at the general meetings of the Bank (other than on procedural and administrative matters) must be taken by poll. At each general meeting, an explanation of the detailed procedures of conducting a poll will be provided to the Shareholders, and questions from the Shareholders regarding voting by poll will also be answered to ensure that Shareholders are familiar with such procedures. The poll results will be posted on the websites of the HKEX and the Bank on the same day following the general meeting.

SHAREHOLDERS' RIGHTS

1. *General Meeting*

Shareholder(s) may request to call a general meeting. If such request is made by Shareholder(s) representing 5% of the total voting rights of all the Shareholders having a right to vote at general meetings, such general meeting must be called. Such request, either in hard copy form or in electronic form and being authenticated by the person or persons making it, must be deposited at the registered office of the Bank at Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong or sent by email to info@chbank.com for the attention of the Company Secretary. Shareholder(s) shall make reference to the provisions under Sections 566 to 568 of the Companies Ordinance for requesting to call a general meeting.

2. *Putting Forward a Resolution at an Annual General Meeting ("AGM")*

Pursuant to Section 615 of the Companies Ordinance, a request to put forward a resolution which may properly be moved at an AGM may be submitted by Shareholder(s) representing at least 2.5% of the total voting rights of all the Shareholders who have a right to vote on the resolution at the AGM to which the request relates, or by at least 50 Shareholders who have a right to vote on the resolution at the AGM to which the request relates. Such request must identify the resolution of which notice is to be given, be either in hard copy form or in electronic form, be authenticated by the person or persons making it, and be received by the Bank not later than six weeks before the AGM to which the request relates or, if later, the time at which notice is given of that AGM. The request must be deposited at the registered office of the Bank at Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong or sent by email to info@chbank.com for the attention of the Company Secretary. Shareholder(s) should make reference to Sections 580 and 615 of the Companies Ordinance for the relevant procedures to put forward a resolution at an AGM.

CORPORATE GOVERNANCE REPORT

as of 4 March 2021

3. *Proposing a Person for Election as a Director*

Shareholders can propose a person (other than a retiring Director or himself/herself) for election as a director at a general meeting of the Bank. Relevant procedures are available on the Bank's website at www.chbank.com.

INVESTOR RELATIONS AND INFORMATION DISCLOSURE

The Bank has put in place a Disclosure Policy for the disclosure of material information (including inside information) relating to its businesses, state of affairs, profit or loss and capital adequacy ratio to its stakeholders and the public in compliance with the disclosure obligations required by the Listing Rules, the Banking Ordinance, the Securities and Futures Ordinance and other applicable laws, rules and regulations.

The Disclosure Policy sets out the procedures and internal controls for the handling and dissemination of such information in a timely manner so as to enable the stakeholders and the public to appraise the latest position of the Group. The Disclosure Policy and its effectiveness are subject to review on a regular basis according to the established procedures.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2020, no change was made to the Articles of Association of the Bank, the latest version of which is available on the websites of HKEX and the Bank.

By Order of the Board

Lai Wing Nga

Company Secretary

Hong Kong, 4 March 2021

INDEPENDENT AUDITOR'S REPORT

To the Members of Chong Hing Bank Limited

(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of Chong Hing Bank Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 84 to 220, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Key audit matter identified in our audit is related to Measurement of impairment allowances of advances to customers.

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Measurement of impairment allowances of advances to customers</p> <p>As at 31 December 2020, the Group recorded gross advances to customers of HK\$142,382 million and impairment allowances of HK\$879 million, with HK\$537 million as stage 1 and stage 2 impairment allowances and HK\$342 million as stage 3 impairment allowances.</p> <p>The Group uses expected credit losses ("ECL") models based on the Group's experience of the correlations between defaults and losses for estimating impairment allowances on advances to customers. Governance processes and controls are also in place for the measurement of impairment allowances of advances to customers.</p> <p>Key management judgements used in the ECL models, including the following:</p> <ul style="list-style-type: none"> - Application of set criteria to determine any significant increase in credit risk, or a default or impairment loss has incurred; - Selection of economic indicators for forward-looking measurement, and the application of economic scenarios and respective probability weightings, including consideration of forward looking economic impacts of COVID 19; and - Provisions for impairment of Stage 3 loans that are individually assessed by the Group. These provisions are established based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Group in respect of those loans under multiple weighted scenario outcomes, including a scenario for consideration of COVID 19. <p>The impairment allowances of advances to customers are detailed in notes 7, 14 and 22 to the consolidated financial statements.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> - Obtained an understanding of the end-to-end process and relevant internal controls through walk-through meetings with key departments and performed testing on key controls including review and approval of ECL results, ECL model validation and management assumptions by the ECL committee; - Assessed the appropriateness of the management's identification of significant increase in credit risk, defaults and credit-impaired loans by considering financial information and non-financial information of the borrowers, relevant external evidence and other factors of the selected samples; - Assessed major modelling methodologies and assumptions including the reasonableness of portfolio segmentation and use of statistical methods, and evaluated model validation reports with the assistance of our modelling specialists; - Tested the accuracy and completeness of critical ECL model data inputs through testing the critical data input controls, tracing a sample population of critical data to their source documents and data records maintained in various systems involved in the ECL computation; - Assessed management's analysis of their selection of economic indicators and economic scenarios including forward looking COVID 19 considerations, and performed an assessment of their sensitivity analysis of probability weightings; - Evaluated, on a sample basis, the level of stage 3 impairment allowances recorded for specific loans by challenging management on the judgements applied in the expected future cash flows estimation for multiple weighted scenario outcomes and re-performed the mathematical accuracy of management's discounted cash flow calculation. - Assessed the adequacy of disclosures in relation to ECL on advances to customers in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Bank are responsible for the other information. The other information comprises the information included in the annual report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Unaudited Supplementary Financial Information and the Regulatory Disclosure for the year ended 31 December 2020, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Unaudited Supplementary Financial Information and the Regulatory Disclosure for the year ended 31 December 2020, if we conclude that there is a material misstatement therein, we are required to communicate the matter to Audit Committee and take appropriate action considering our legal rights and obligations.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Antoinette Hoon.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 4 March 2021

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CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
Interest income		5,565,742	6,492,027
Interest expense		(2,639,190)	(3,232,167)
Net interest income	9	2,926,552	3,259,860
Fee and commission income		513,217	448,854
Fee and commission expenses		(78,890)	(123,197)
Net fee and commission income	10	434,327	325,657
Net income from trading and investments	11	258,453	241,293
Other operating income	12	189,385	184,461
Operating expenses	13	(1,661,304)	(1,624,429)
Operating profit before impairment allowances		2,147,413	2,386,842
Net impairment losses on financial assets	14	(422,003)	(137,881)
Operating profit after impairment allowances		1,725,410	2,248,961
Net losses on disposal of equipment		(573)	(344)
Net losses on fair value adjustments on investment properties	25	(10,300)	(4,431)
Share of profits of associates	24	42,229	37,191
Profit before taxation		1,756,766	2,281,377
Taxation	15	(276,788)	(380,735)
Profit for the year		1,479,978	1,900,642
– Attributable to equity owners of the Bank		1,479,978	1,900,642
Earnings per share – basic and diluted	17	HK\$1.34	HK\$1.80

The notes on pages 91 to 220 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
Profit for the year	1,479,978	1,900,642
Other comprehensive income		
Items that may not be reclassified subsequently to profit or loss:		
Net (losses) gains on investments in equity instruments measured at fair value through other comprehensive income ("FVOCI")	(10,005)	4,979
Remeasurements of retirement benefit	10,220	–
Income tax effect relating to retirement benefit	(1,686)	–
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	339,164	(57,666)
Net (losses) gains on investments in debt instruments measured at FVOCI	(404,342)	527,219
Amount reclassified to profit or loss upon disposal of debt securities measured at FVOCI	(57,416)	(40,899)
Income tax effect relating to disposal of financial assets measured at FVOCI	9,474	6,748
Income tax effect relating to fair value change of financial assets measured at FVOCI	59,806	(79,403)
Share of other comprehensive income of associates	6,180	18,233
Other comprehensive income for the year (net of tax)	(48,605)	379,211
Total comprehensive income for the year	1,431,373	2,279,853
Total comprehensive income attributable to:		
Equity owners of the Bank	1,431,373	2,279,853

The notes on pages 91 to 220 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
Assets			
Cash and short-term funds	18	21,800,643	20,404,505
Placements with banks maturing between one to twelve months		1,478,103	5,525,049
Derivative financial instruments	19	1,645,450	705,930
Investments in securities	20	52,853,752	57,534,593
Advances and other accounts	22	152,283,092	125,982,796
Tax recoverable		168,841	–
Interests in associates	24	399,553	377,244
Investment properties	25	299,513	306,610
Property and equipment	26	1,095,218	1,124,251
Deferred tax assets	33	32,109	28,767
Intangible assets	35	843,373	778,289
Total assets		232,899,647	212,768,034
Liabilities			
Deposits and balances of banks		8,229,574	6,949,921
Financial assets sold under repurchase agreements	27	786,540	4,253,852
Deposits from customers	28	183,228,291	162,664,648
Derivative financial instruments	19	3,775,482	1,902,951
Other accounts and accruals	36	3,241,808	3,172,687
Current tax liabilities		21,852	486,528
Certificates of deposit	29	2,551,530	3,749,075
Loan capital	30	3,033,178	4,579,912
Deferred tax liabilities	33	96,932	145,247
Total liabilities		204,965,187	187,904,821
Equity attributable to owners of the Bank			
Share capital	31	9,977,060	9,977,060
Additional equity instruments	32	5,427,996	3,111,315
Reserves		12,529,404	11,774,838
Total equity		27,934,460	24,863,213
Total liabilities and equity		232,899,647	212,768,034

The notes on pages 91 to 220 form an integral part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 4 March 2021 and signed on its behalf by:

Zhang Zhaoxing
Chairman

Zong Jianxin
Executive Director, Deputy Chairman and Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

	Note	Land and										
		Share	Additional	Share-based	Investment	Land and	General	Translation	Regulatory	Retained	Total	
		capital	equity	payment	revaluation	building	reserve	reserve	reserve	profits		
HK\$'000	HK\$'000	Goodwill	reserve	reserve	reserve	reserve	reserve	reserve	HK\$'000	HK\$'000		
At 1 January 2020		9,977,060	3,111,315	(182)	-	443,969	179,633	1,388,500	(171,599)	1,039,000	8,895,517	24,863,213
Profit for the year		-	-	-	-	-	-	-	-	-	1,479,978	1,479,978
Other comprehensive income		-	-	-	-	(396,303)	-	-	339,164	-	8,534	(48,605)
Total comprehensive income for the year		-	-	-	-	(396,303)	-	-	339,164	-	1,488,512	1,431,373
Issue of additional equity instruments												
(Note 1)	32	-	2,316,681	-	-	-	-	-	-	-	-	2,316,681
Redemption of additional equity instruments		-	-	-	-	-	-	-	-	-	-	-
Equity settled share-based transaction		-	-	-	6,023	-	-	-	-	-	-	6,023
Distribution payment for additional equity instruments		-	(177,116)	-	-	-	-	-	-	-	-	(177,116)
Transfer from retained profits		-	177,116	-	-	-	-	-	-	-	(177,116)	-
Interim dividend paid	16	-	-	-	-	-	-	-	-	-	(106,978)	(106,978)
Final dividend paid	16	-	-	-	-	-	-	-	-	-	(398,736)	(398,736)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	-	-	(436,000)	436,000	-
At 31 December 2020		<u>9,977,060</u>	<u>5,427,996</u>	<u>(182)</u>	<u>6,023</u>	<u>47,666</u>	<u>179,633</u>	<u>1,388,500</u>	<u>167,565</u>	<u>603,000</u>	<u>10,137,199</u>	<u>27,934,460</u>

Note 1: During the year, the Bank issued US\$300,000,000 (2019: US\$400,000,000) (equivalent to HK\$2,325,030,000 (2019: HK\$3,123,280,000)) undated non-cumulative subordinated Additional Tier 1 capital securities ("AT1"). Direct issuance costs of HK\$8,349,000 (2019: HK\$11,965,000) are accounted for as a deduction from the equity instrument.

The notes on pages 91 to 220 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

	Note	Additional		Share-based payment reserve	Investment revaluation reserve	Land and building revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
		Share capital	equity instruments								
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019		9,977,060	2,312,030	(182)	7,092	179,633	1,388,500	(113,933)	912,000	7,880,129	22,542,329
Profit for the year		-	-	-	-	-	-	-	-	1,900,642	1,900,642
Other comprehensive income		-	-	-	436,877	-	-	(57,666)	-	-	379,211
Total comprehensive income for the year		-	-	-	436,877	-	-	(57,666)	-	1,900,642	2,279,853
Issue of additional equity instruments											
(Note 1)	32	-	3,111,315	-	-	-	-	-	-	-	3,111,315
Redemption of additional equity instruments (Note 2)	32	-	(2,312,030)	-	-	-	-	-	-	(41,174)	(2,353,204)
Equity settled share-based transaction		-	-	-	-	-	-	-	-	-	-
Distribution payment for additional equity instruments		-	(153,015)	-	-	-	-	-	-	-	(153,015)
Transfer from retained profits		-	153,015	-	-	-	-	-	-	(153,015)	-
Interim dividend paid	16	-	-	-	-	-	-	-	-	(165,329)	(165,329)
Final dividend paid	16	-	-	-	-	-	-	-	-	(398,736)	(398,736)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	-	127,000	(127,000)	-
At 31 December 2019		<u>9,977,060</u>	<u>3,111,315</u>	<u>(182)</u>	<u>443,969</u>	<u>179,633</u>	<u>1,388,500</u>	<u>(171,599)</u>	<u>1,039,000</u>	<u>8,895,517</u>	<u>24,863,213</u>

Note 2: During the year ended 31 December 2019, the Bank redeemed US\$300,000,000 (after deduction relevant issuing cost, equivalent to HK\$2,312,030,000) AT1 issued in 2014, the difference of HK\$41,174,000 paid in excess of the carrying amount was charged to retained profits.

The retained profits of the Group included retained profits of HK\$183,524,000 (2019: retained profits of HK\$169,951,000) retained by the associates of the Group.

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

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

The notes on pages 91 to 220 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

	<i>Note</i>	2020 HK\$'000	2019 HK\$'000
OPERATING ACTIVITIES			
Profit before taxation		1,756,766	2,281,377
Adjustments for:			
Net interest income	9	(2,926,552)	(3,259,860)
Net impairment losses on financial assets	14	422,003	137,881
Net losses on disposal of equipment		573	344
Net gains on disposal of financial assets measured at FVOCI		(57,416)	(40,899)
Net losses on fair value adjustments on investment properties		10,300	4,431
Share of profits of associates	24	(42,229)	(37,191)
Net gains on fair value hedge		(7,003)	(2,727)
Dividend received from investments	12	(11,969)	(12,767)
Depreciation and amortisation	13	283,264	248,048
Equity settled share-based payment expenses		6,023	–
Exchange adjustments		690,903	(77,875)
Operating cash flows before movements in operating assets and liabilities		124,663	(759,238)
(Increase) decrease in operating assets:			
Money at call and short notice with original maturity over three months		94,656	192,993
Placements with banks with original maturity over three months		3,222,479	(390,612)
Financial assets at fair value through profit or loss		16,543	(24,659)
Advances to customers		(24,410,970)	(16,268,634)
Advances to banks		(266,134)	(502,380)
Other accounts		(2,265,834)	(2,337,062)
Increase (decrease) in operating liabilities:			
Deposits and balances of banks		1,279,653	1,333,968
Financial assets sold under repurchase agreements		(3,467,312)	(2,317,844)
Deposits from customers		20,563,643	18,974,354
Certificates of deposit		(1,197,545)	1,060,689
Derivative financial instruments		(664,771)	170,328
Other accounts and accruals		554,318	(26,925)
Cash used in operations		(6,416,611)	(895,022)
Hong Kong profits tax paid		(808,898)	(121)
Overseas tax paid		(86,408)	(89,850)
Interest received		4,634,053	4,937,008
Interest paid		(2,957,532)	(2,446,967)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES		(5,635,396)	1,505,048

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

	<i>Note</i>	2020 HK\$'000	2019 HK\$'000
INVESTING ACTIVITIES			
Interest received from investments in securities		1,246,921	1,340,810
Dividends received on investments in securities	12	11,969	12,767
Dividends received from associates		26,100	25,500
Purchase of financial assets measured at amortised cost		(2,400,044)	(375,874)
Purchase of financial assets measured at FVOCI		(117,800,913)	(76,437,888)
Purchase of property and equipment		(94,136)	(82,898)
Purchase of intangible assets		(66,213)	(231,622)
Proceeds from redemption of financial assets measured at amortised cost		388,354	383,506
Proceeds from sale and redemption of financial assets measured at FVOCI		125,382,102	67,611,524
Proceeds from disposal of equipment		2,037	2,757
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		6,696,177	(7,751,418)
FINANCING ACTIVITIES			
Net proceeds from issue of additional equity instruments		2,316,681	3,111,315
Redemption of additional equity instruments		–	(2,353,204)
Redemption of loan capital		(1,629,378)	–
Interest paid on loan capital	30	(213,627)	(210,804)
Interest paid on debt securities issued		–	(62,103)
Redemption of debt securities issued		–	(1,708,650)
Payment of lease liabilities	36	(185,300)	(209,297)
Dividends paid to ordinary shareholders		(505,714)	(564,065)
Distribution paid on additional equity instruments	32	(177,116)	(153,015)
NET CASH USED IN FINANCING ACTIVITIES		(394,454)	(2,149,823)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		666,327	(8,396,193)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		22,298,698	30,694,891
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		22,965,025	22,298,698
Represented by:			
Cash and balances with central bank and banks		17,202,817	5,703,209
Money at call and short notice with original maturity of less than three months		4,571,826	14,580,640
Placements with banks maturing between one to twelve months with original maturity of less than three months		1,190,382	2,014,849
		22,965,025	22,298,698

The notes on pages 91 to 220 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

1. GENERAL

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.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

- Interest Rate Benchmark Reform – Phase 1, amendments to HKFRS 9 "Financial Instruments", HKAS 39 "Financial Instruments: Recognition and Measurement" and HKFRS 7 "Financial Instruments: Disclosure"

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

Significant judgement will be required in determining when uncertainty is expected to be resolved and when the temporary exceptions will cease to apply. As at 31 December 2020, there is still uncertainty on the IBORs and the Group has applied the temporary exceptions on the all of the hedge accounting relationships that reference benchmarks subject to reform or replacement. The Group has closely monitored the market progress on the transition of IBORs to RFRs.

The Group designated certain interest rate swaps, exposed to different IBORs, predominantly US Dollar LIBOR, as fair value hedge of investments in debt instruments measured at FVOCI, amortised cost and subordinated note issued. The notional amounts of interest rate swaps designated in hedge accounting relationship impacted by the exception as at 31 December 2020 is approximately HK\$31 billion.

There are no other HKFRSs or interpretations that are effective from 1 January 2020 that would be expected to have a material impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

3. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2021, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- Interest Rate Benchmark Reform – Phase 2, amendments to HKAS 39, HKFRS 4 “Insurance Contracts”, HKFRS 7, HKFRS 9 and HKFRS 16 “Leases”

The amendments address issues that might affect financial reporting as a result of the interest rate benchmark reform and relate to:

- changes to contractual cash flows — financial instruments will not be derecognised or the carrying amount of financial instruments will not be adjusted for changes required by the reform, but the effective interest rate will be updated to reflect the change to the alternative benchmark rate;
- hedge accounting — hedge accounting will not be discontinued solely because changes are made required by the reform, if the hedge meets other hedge accounting criteria; and
- disclosures — disclose information will be required about new risks arising from the reform and how the transition to alternative benchmark rates is managed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The principal accounting policies are set out below. These policies have been consistently applied in all years presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ("POCI") financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- (a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
- (b) Financial assets that are not POCI but have subsequently become credit-impaired (or "Stage 3"), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss allowance).

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Measurement methods (Continued)

Initial recognition and measurement (Continued)

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

(i) Classification and subsequent measurement

The Group classifies its financial assets in the following measurement categories:

- Fair value through profit or loss ("FVPL");
- Fair value through other comprehensive income ("FVOCI"); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- (i) the Group's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

Debt instruments (Continued)

- Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net income from trading and investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net income from trading and investments' in the period in which it arises.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

Debt instruments (Continued)

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net income from trading and investments' line in the income statement.

(ii) Impairment

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

(iii) Modification of financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach.

Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

(v) Write off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indications that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies (see Note 4(iv)); and
- Financial guarantee contracts and loan commitments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities (Continued)

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iii) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the financial asset and settle the financial liability simultaneously. The legal enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or the counterparty.

FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of HKFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS** *(Continued)*

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

DERIVATIVES AND HEDGING ACTIVITIES

The Group has elected to continue to apply the hedge accounting requirements of HKAS 39 on adoption of HKFRS 9.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes.

Otherwise, the embedded derivatives are treated as separate derivatives when:

- (i) Their economic characteristics and risks are not closely related to those of the host contract;
- (ii) A separate instrument with the same terms would meet the definition of a derivative; and
- (iii) The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are stated in the Bank's statement of financial position at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Bank on the basis of dividends received or receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

INTANGIBLE ASSETS

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment losses for goodwill is recognised directly in the consolidated income statement. An impairment losses recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of gain or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Computer software and internally developed software

Costs associated with maintaining computer software and internally developed software are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Direct attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Development costs recognised as assets are amortised over their estimated useful lives, which does not exceed fifteen years.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

INTERESTS IN ASSOCIATES

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTERESTS IN ASSOCIATES *(Continued)*

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in the income statement in the period in which the investment is acquired.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Investments in associates are stated in the Bank's statement of financial position at cost less provision for impairment losses. The results of associates are accounted for by the Bank on the basis of dividends received or receivable.

INTEREST INCOME AND EXPENSES

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the income statement using the effective interest method.

Interest income and expenses are recognised on a time-proportion basis by reference to the principal outstanding and at the effective interest rate applicable. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability on initial recognition. The calculation includes significant fees and transaction costs that are an integral part of the effective interest rate, and premiums or discounts.

NON-INTEREST INCOME REVENUE RECOGNITION

Fees and commission income

Fees and commission income that are integral to the effective interest rate on a financial asset are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

Dividends

Dividend income from investments including financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

NON-INTEREST INCOME REVENUE RECOGNITION *(Continued)*

Service income

Service income (including safe deposit box rentals and other banking services income) is recognised when services are provided.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

PROPERTY AND EQUIPMENT

Property and equipment including land and buildings, which mainly comprise of branches and offices are stated in the statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gains or losses arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

Property and equipment will be reclassified to investment property when it is evidenced by end of owner occupation and commencement of an operating to another party.

Depreciation is calculated on a straight-line basis at the following useful lives:

Leasehold land	Over the remaining term of the lease
Buildings	Over its estimated useful life of 50 years or over the remaining term of lease of the leasehold land, whichever is the shorter
Equipment	5-15 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVESTMENT PROPERTIES

Investment properties are properties held to earn rentals or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values representing open market value determined at each reporting date by external valuers. Gains or losses arising from changes in the fair value of investment property are included in the income statement for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposals. Any gains or losses arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period in which the item is derecognised.

FOREIGN CURRENCIES

Functional and presentation currency

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. The consolidated financial statements are presented in thousands of units of Hong Kong Dollars (HK\$'000), which is the Bank's functional currency and the Group's presentation currency.

Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FOREIGN CURRENCIES *(Continued)*

Transactions and balances (Continued)

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates at statement of financial position dates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

All foreign exchange gains and losses recognised in the income statement are presented net in the income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as FVOCI, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equity instruments measured at FVPL, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equity instruments measured at FVOCI, are included in other comprehensive income.

Group companies and overseas branches

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

RETIREMENT BENEFIT COSTS

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out regularly such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

RETIREMENT BENEFIT COSTS *(Continued)*

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained profits and will not be reclassified to the income statement. Past service cost is recognised in the income statement in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), recognised in the income statement;
- net interest expense or income, recognised in the income statement; and
- remeasurement, recognised in the other comprehensive income.

The net retirement benefit liability/asset recognised in the statements of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

BONUS PLANS

Liabilities for bonus plans due wholly within twelve months after the end of the reporting period are recognised when the Group has a present or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

SHARE BASED PAYMENTS

The market value of the shares issued is recognised as staff costs with a corresponding increase in equity over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of shares that are expected to vest based on service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***TAXATION** *(Continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax is recognised in the income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

IMPAIRMENT OF NON-FINANCIAL ASSETS (OTHER THAN GOODWILL)

At the end of the reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment losses, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised immediately in the income statement.

Where impairment losses subsequently reverse, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment losses been recognised for the asset in prior years. A reversal of impairment losses is recognised as income immediately.

CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with central bank and banks, money at call and short notice, as well as placements with banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***LEASING***The Group as lessee*

The Group leases various offices and retail branches. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable and the payments to be made under reasonably certain to exercise termination option. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentive received and restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in consolidated income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of equipment.

The Group as lessor

As a lessor, the Group leases out its investment properties as the lessor of operating leases. Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant leases.

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

(a) *Measurement of the expected credit loss allowance*

The measurement of the expected credit loss allowance for financial assets measured at amortised cost, financial assets measured at FVOCI, loan commitment and financial guarantee is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

The Group establishes, through charges against profit, impairment allowances in respect of expected credit losses on financial instrument. The Group measures impairment allowances for 12-month or lifetime ECL using a 3-stage approach as follows:

Stage	Description	Impairment loss
Stage 1	Performing	12-month ECL
Stage 2	Performing but with credit risk increased significantly at reporting date since its initial recognition	Lifetime ECL
Stage 3	Non-performing	Lifetime ECL

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Detailed information about the judgements and estimates made by the Group is set out in Note 7.

(b) *Fair value of derivatives and other financial instruments*

The management of the Group uses its judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments and structured products with embedded derivatives, assumptions are made based on quoted market rates adjusted for specific features of the instruments.

Details of the assumptions used are set out in Note 7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

6. SEGMENT INFORMATION

(A) OPERATING SEGMENTS

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 purpose of allocating resources to segments and assessing their performance on business divisions of the Group, are as follows:

The corporate and personal banking services provided by the Group are principally lending and trade finance facilities, auto financing, consumer financing, overdraft facilities, mandatory provident fund services, provision of fixed deposits, current and savings accounts, credit cards and personal wealth management services. The Group also provides automated telephone and internet banking services to its customers. Other banking services offered include remittance and money exchange, safe deposit boxes, autopay and direct debit services.

Financial markets activities mainly comprise inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the Group and centralised cash management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts, and from the Bank's cash management activities through foreign currency funding swaps.

Securities business of the Group includes securities trading, stockbroking and futures broking.

Others comprise investment holding, insurance, other investment advisory services and property investments.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

6. SEGMENT INFORMATION (Continued)

(A) OPERATING SEGMENTS (Continued)

(i) Operating segment information for the year ended 31 December 2020 is presented below:

Operating segment revenues and results

	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	4,530,836	1,022,618	7,668	4,620	–	5,565,742
Interest expense to external customers	(2,372,914)	(97,235)	(25)	(169,016)	–	(2,639,190)
Inter-segment interest income (Note)	227,933	–	–	286,632	(514,565)	–
Inter-segment interest expense (Note)	–	(514,565)	–	–	514,565	–
Net interest income	2,385,855	410,818	7,643	122,236	–	2,926,552
Fee and commission income	344,780	4,443	158,246	5,748	–	513,217
Fee and commission expense	(78,426)	(158)	(306)	–	–	(78,890)
Net income from trading and investments	130,020	141,980	(117)	(13,430)	–	258,453
Other operating income	118,795	–	4,411	66,179	–	189,385
Total Operating income						
Segment revenue	2,901,024	557,083	169,877	180,733	–	3,808,717
Comprising:						
– Segment revenue from external customers	2,673,091	1,071,648	169,877	(105,896)		
– Inter-segment transactions	227,933	(514,565)	–	286,629		
Operating expenses	(1,408,389)	(115,951)	(83,321)	(53,643)	–	(1,661,304)
Net impairment losses on financial assets	(380,073)	(41,943)	–	13	–	(422,003)
Net losses on disposal of equipment	–	–	–	(573)	–	(573)
Net losses on fair value adjustments on investment properties	–	–	–	(10,300)	–	(10,300)
Segment profit	1,112,562	399,189	86,556	116,230	–	1,714,537
Share of profits of associates						42,229
Profit before taxation						1,756,766

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

6. SEGMENT INFORMATION (Continued)

(A) OPERATING SEGMENTS (Continued)

(i) Operating segment information for the year ended 31 December 2020 is presented below: (Continued)

Operating segment assets and liabilities as 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					232,899,647
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					204,965,187

Other information – amounts included in the measure of segment results and segment assets

	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 year	23,676	3	1,131	291	52,730	77,831
Depreciation and amortisation	172,440	13,623	12,552	8,220	76,429	283,264

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

(ii) Operating segment information for the year ended 31 December 2019 is presented below:

Operating segment revenues and results

	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	4,499,541	1,952,754	9,646	30,086	-	6,492,027
Interest expense to external customers	(2,470,492)	(484,891)	-	(276,784)	-	(3,232,167)
Inter-segment interest income (Note)	538,204	-	-	515,907	(1,054,111)	-
Inter-segment interest expense (Note)	-	(1,054,111)	-	-	1,054,111	-
Net interest income	2,567,253	413,752	9,646	269,209	-	3,259,860
Fee and commission income	344,803	1,054	101,235	1,762	-	448,854
Fee and commission expense	(122,839)	(302)	(56)	-	-	(123,197)
Net income from trading and investments	136,518	105,247	(23)	(449)	-	241,293
Other operating income	111,581	-	3,582	69,298	-	184,461
Total operating income						
Segment revenue	3,037,316	519,751	114,384	339,820	-	4,011,271
Comprising:						
- Segment revenue from external customers	2,499,112	1,573,862	114,384	(176,087)		
- Inter-segment transactions	538,204	(1,054,111)	-	515,907		
Operating expenses	(1,371,567)	(111,370)	(87,420)	(54,072)	-	(1,624,429)
Net impairment losses on financial assets	(105,055)	(32,822)	1	(5)	-	(137,881)
Net losses on disposal of equipment	-	-	-	(344)	-	(344)
Net losses on fair value adjustments on investment properties	-	-	-	(4,431)	-	(4,431)
Segment profit	1,560,694	375,559	26,965	280,968	-	2,244,186
Share of profits of associates						37,191
Profit before taxation						2,281,377

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

6. SEGMENT INFORMATION (Continued)

(A) OPERATING SEGMENTS (Continued)

(ii) Operating segment information for the year ended 31 December 2019 is presented below: (Continued)

Operating segment assets and liabilities as at 31 December 2019

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

Other information – amounts included in the measure of segment results and segment assets

	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 year	43,077	1,955	104	65	269,319	314,520
Depreciation and amortisation	151,483	12,286	11,478	7,802	66,534	249,583

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

6. SEGMENT INFORMATION *(Continued)*

(A) OPERATING SEGMENTS *(Continued)*

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

6. SEGMENT INFORMATION (Continued)

(B) 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.

Details of geographical information are set out below:

	2020						
	Total operating income	Profit before taxation	Capital expenditure during the year	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	2,933,217	1,218,423	60,287	170,066,910	147,966,724	35,768,118	2,337,535
Mainland China	818,651	501,150	17,527	59,278,566	53,834,445	10,038,474	329,042
Macau and Others	56,849	37,193	17	3,554,171	3,164,018	504,403	3,189
Total	3,808,717	1,756,766	77,831	232,899,647	204,965,187	46,310,995	2,669,766

	2019						
	Total operating income	Profit before taxation	Capital expenditure during the year	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	3,255,888	1,908,155	283,897	163,594,576	143,923,479	32,637,540	2,370,629
Mainland China	696,206	329,583	30,601	45,005,266	40,170,534	12,255,417	236,038
Macau and Others	59,177	43,639	22	4,168,192	3,810,808	1,322,493	8,494
Total	4,011,271	2,281,377	314,520	212,768,034	187,904,821	46,215,450	2,615,161

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to variety of financial risks and the activities involve analysis, evaluation, acceptance and management of some degree of risk or a combination of risks. The Group's aim is therefore to achieve an appropriate balance between risk and return, and to minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adhere to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management functions are carried out by the Asset and Liability Management Committee (the "ALCO") under policies approved by the Board of Directors of the Bank (the "Board") and the Risk Management Committee (the "RMC"). The ALCO identifies, evaluates and mitigates financial risks in close co-operation with the Group's operating units. The Board and the RMC provide written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risks from the use of financial instruments are credit risk, market risk and liquidity risk. Market risk includes currency risk, interest rate risk and price risk.

CATEGORIES OF FINANCIAL INSTRUMENTS

	2020 HK\$'000	2019 HK\$'000
Financial assets		
Financial assets measured at fair value through profit or loss	1,769,594	846,617
Financial assets measured at FVOCI	55,371,700	56,913,273
Financial assets measured at amortised cost (including cash and cash equivalents)	172,919,746	152,392,983
Financial liabilities		
Fair value through profit or loss	3,775,482	1,902,951
Amortised cost (<i>Note</i>)	201,070,921	185,370,095

Note: Loan capital of HK\$3,033,178,000 (2019: HK\$4,579,912,000) was carried at amortised cost with adjustment of fair value hedge as at 31 December 2020 (see note 30).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfill their contractual obligations to the Group. Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from financial guarantees, letters of credit and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures') including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties.

Credit risk is the largest risk for the Group's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team which reports regularly to the Board of Directors and head of each business unit.

Management of credit risk

The Group's lending policies have been formulated on the basis of its own experience, the Hong Kong Banking Ordinance, the Hong Kong Monetary Authority guidelines and other statutory requirements (in the case of branches outside Hong Kong and subsidiaries, the relevant local laws and regulations).

The Group has delegated selected individuals with the credit approval authority. These individuals consist of Chief Risk Officer, Chief Credit Officer and experienced credit risk officers of the Group. The Chief Risk Officer has the overall responsibility for the management of credit risk through formulating credit policies, overseeing the credit quality of the Group's loan portfolio, ensuring an independent and objective assessment of credit risk, controlling exposure to selected industries, counterparties, countries and portfolio types etc. and providing advice and guidance to business units on various credit-related issues.

Credit risk officers perform independent reviews and approvals of credit applications by ensuring that a credit proposal meets underwriting standards of the Group and complies with relevant rules and regulations. Approval from the senior executive approvers, comprising Executive Directors and senior executives of the Group, is required as and when the requested amount of a credit application exceeds the highest delegated authority of a credit risk officer.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are typically monitored on a revolving basis and are subject to periodic reviews. Limits on the level of credit risk by product, industry sector and by country are approved annually by the management.

Exposure to credit risk is managed through regular reviews of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Credit risk rating

The Group uses internal credit risk rating that reflects its assessment of the likelihood of individual counterparties being default. Borrower and loan specific information, both quantitative and qualitative, such as profitability ratio and industry type for corporate banking customers, are fed into the rating model to estimate the default risk. The internal credit risk rating is applied on corporate counterparties.

Expected credit loss measurement

HKFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition.

A financial instrument that have not had a significant changes in credit risk ("SICR") since initial recognition or that have low credit risk at the reporting date is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.

If a SICR since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

A pervasive concept in measuring ECL in accordance with HKFRS 9 is that it should consider forward looking information.

Further explanation is also provided of how the Group determines appropriate groupings when ECL is measured on a collective basis.

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

Establishing groups of similar financial assets for the purpose of measuring ECL

For ECL allowance provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered the product nature and geographic location, and benchmarked external data to determine groupings. The characteristics and supplementary data used to determine the groupings are outlined below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Personal banking

For personal banking portfolios, the grouping is based on product nature. The products are segmented into mortgage, credit card, overdraft, personal loan and etc.

Corporate banking

For corporate banking portfolios, loans are grouped according to geographical location and loan purpose, such as lending to corporate entities, financial institutions and etc. Credit limit is also considered to further classify the corporate loans into Corporate Top Tier and Corporate.

Treasury

The treasury exposures are grouped based on the issuer type - bank, corporate and sovereign.

Others

For exposures from subsidiaries and overseas branches and sub-branches, they are grouped based on the business type of the subsidiaries and geographic location of the overseas branches and sub-branches.

Determining criteria for SICR

The Group assesses whether there is a significant increase in risk of a credit exposure since origination at reporting date. While determining the significant increase in credit risk, the Group considers all reasonable and supportable information that is available without undue cost or effort and that is relevant for an individual financial instrument, a portfolio, sub-group of a portfolio and groups of portfolios. The Group's internal lending policy and other credit risk management procedures are referenced and as well as benchmarking with industry practice.

The Group adopts "Policy & Procedures for Loan Classification" based on HKMA guidelines. It is required to classify loans and advances to five classification categories, namely "Pass", "Special Mention", "Substandard", "Doubtful" and "Loss". The decision to classify loans into the above five categories is based on the borrower's repayment ability and the likelihood of individual counterparties being default.

The Group also maintains an Early Warning ("EW") list, which includes borrowers who exhibit risks or potential weaknesses of material nature requiring closer monitoring, supervision, or attention by management. The EW accounts are classified into three categories, namely Low Risk, Medium Risk and High Risk.

The Group adopted individual Probability of Default ("PD") for corporate loan portfolio deriving from its internal credit rating since 2020 while portfolio PD was applied in 2019. As individual PD is available, the quantitative measurement of comparing the lifetime PD at origination with the remaining lifetime PD at reporting date is applied in determination of SICR. For the rest of the portfolio, the Group adopted portfolio PD. A credit exposure is considered as experiencing significant increase in credit risk if one or more of the following criteria have been met (applied to Personal banking, Corporate banking and Treasury portfolios):

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Determining criteria for SICR (Continued)

- Contractual payments are equal to or more than 30 days and less than 90 days past due;
- Loan is classified as Special Mention according to the "Policy & Procedures for Loan Classification";
- Significant change in external credit rating, i.e. migrating from investment grade to speculative grade, (applicable to treasury portfolios only);
- Any Medium or High risk borrower in the EW List. High risk EW borrowers present an imminent credit concern that may exhibit higher possibility of default and/or rapid material deterioration in credit quality, while medium risk EW borrowers exhibit medium to low possibility of default and emerging signs of deterioration in credit quality. Low risk borrowers are not included in SICR since these accounts do not present any imminent credit concern. There is no evidence of a fundamental deterioration of its creditworthiness and it is placed on early warning solely for precautionary purpose, elevated attention and closer monitoring; and
- Any facility with current credit risk rating downgraded by two or more notches compared with the credit risk rating at origination, (applicable to Corporate and Corporate Top Tier segments only).

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Determining definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is aligned with definition of credit impaired, when it meets one or more of following criteria:

- A loan is classified as Substandard, Doubtful or Loss according to the "Policy & Procedures for Loan Classification";
- A financial asset is 90 days past due or more than 90 days past due on the contractual payments;
- Loan is identified as restructured; and
- Loan is identified as forbearance.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for the internal credit risk management purpose.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Determining appropriate models and assumption of the measurement of ECL

The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since origination or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). PD, EAD and LGD are defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

The ECL is determined by projecting the PD, LGD and EAD for 12-month or lifetime and for each individual exposure or collective segment. These three components are multiplied together. This effectively calculates the ECL for 12-month or lifetime, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

PD is driven by internal credit risk rating, observed historical data and macroeconomic variables. The relationship between PD and macroeconomic variables is developed by the statistical regression model and the lifetime PD is derived by input of forward-looking macroeconomic variables.

The 12-month and lifetime EADs are determined based on the expected payment profile and portfolios, which varies by product type.

Loan and advances

- For non-revolving products, this is based on the outstanding balance owed by the borrower over a 12-month or lifetime basis.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding an "adjustment factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

Treasury

For treasury portfolios, the 12-month and lifetime EADs are calculated depending on the product type and booking type.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Measurement of LGD

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales and time to recovery observed.
- For unsecured products, LGD are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD are influenced by collection strategies. Historical data and Basel model requirement are analysed to derive the LGD.
- For Stage 3 account, other expected future cash flow may also take into consideration if any repayment schedule is confirmed.

The assumptions underlying the ECL calculation are monitored and reviewed regularly. If nature of a credit portfolio is changing, the monitoring and review will be performed more frequently.

During the reporting period, the Group adopted internal credit risk rating in PD estimation for corporate portfolio; other than that, there have been no significant changes in estimation techniques or significant assumptions made.

Incorporating forward-looking information into the ECL models

The calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified a set of key economic variables impacting credit risk and expected credit loss for each portfolio. The forward-looking element is reflected through the impact on PD and LGD models.

The economic variables and their associated impact on PD and LGD vary by financial instruments. Regression analysis was applied to select the most significant economic factors impacting the PD and LGD for each portfolio and to determine their associated impact on PD and LGD. This process involved experts' judgments.

The forward-looking element is reflected by applying the forecasts of the economic variables included in the PD and LGD models. Forecasts of these economic variables are sourced from a leading economic forecasting provider.

According to the HKFRS 9, expected credit loss is expected to be assessed over a range of economic scenarios and is an unbiased and probability weighted amount. The Group extended an additional macroeconomic scenario on top of existing three macroeconomic scenarios, namely Good, Base, Bad and COVID-19 scenarios.

Good, Base and Bad Scenarios

The Good scenario reflects the optimistic view of the future performance of the economy, while the Base scenario reflects the average performance of the economy in future. The Bad scenario assumes the potential economy downturn in future. In this scenario setting process, the Group considered the current economic environment, market forecasts in coming year and management's views on economic outlook.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

COVID-19 Scenario

The COVID-19 scenario was extended in order to accommodate the possible down turn economic environment due to COVID-19. The outbreak of COVID-19 caused significant changes in global economic environment including a sharp contraction in 2020. Looking ahead into 2021, the Hong Kong and China's economies are expected to see growth as a whole; nevertheless, the COVID-19 elsewhere has not been contained. Before effective vaccines are widely used, the epidemic is still the most significant downside risk to Hong Kong and China's economies. The COVID-19 scenario adopted reflects the bad economic forecast scenario in the third wave of COVID-19 infection in HK (e.g. end of June 2020).

The weighting of each scenario is determined by management judgments with consideration of macroeconomic environment of Hong Kong and Mainland China and the trend of global economy. The ECL for each scenario is calculated and finally the overall weighted-average ECL is derived by applying the weighing to the ECL of each corresponding scenario.

Economic variable assumptions

The Group has included various economic forecast variables in the forward-looking models to estimate the ECL for different portfolios. When assessing the significance of assumptions for the ECL estimate, the Group has considered the extent of the usage of the economic variables and the ECL impact of the corresponding portfolio.

Corporate and Treasury portfolios account for the majority of ECL. The Group considered a new set of economic factors as significant to ECL estimate in 2020.

- Hong Kong economic variables – GDP YoY Change %, Property Price QoQ Change %, Hong Kong Unemployment Rate and Exchange Rate (HKD/USD)
- Mainland China's economic variables – GDP QoQ Change % and China Unemployment Rate

GDP (YoY/QoQ) Change %

GDP Change % is one of key economic variables reflecting the economic environment. It has significant impact on companies' performance. The domestic GDP of Hong Kong and Mainland China impacts their PD estimation respectively.

Unemployment Rate

Same as GDP, the Unemployment Rate of Hong Kong and Mainland China impacts their PD estimation respectively. It has significant relationship with customers' repayment ability.

Property Price QoQ Change %

Property Price is another key economic variable reflects the economic environment. It impacts both PD and LGD estimations. Collateral value would be inflated when property market is positive and hence lowers the LGD.

Exchange Rate (HKD/USD)

Exchange rate has significant impact on the value of transactions made in US dollar. The companies are exposed to foreign exchange risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Economic variable assumptions (Continued)

The economic environment has had significant changes since 31 December 2019 as resulting from the COVID-19 pandemic and the economy is expected to be continuously impacted in near-middle term. The trends of the economic variables are critical to ECL estimate, therefore, assumptions are presented individually for year of 2020, 2021 and 2022.

The most significant period-end assumptions used for ECL are set out below:

Scenario		2020 (Annual average)	2021 (Annual average)	2022 (Annual average)
Hong Kong Forecast Factors				
GDP YoY Change %	Base	-5.39%	7.68%	4.55%
	Good	-5.39%	11.42%	6.10%
	Bad	-5.39%	-2.61%	-0.85%
	COVID-19	-12.68%	-3.00%	1.80%
Unemployment rate	Base	5.59%	3.74%	3.02%
	Good	5.59%	3.34%	2.53%
	Bad	5.59%	5.37%	5.17%
	COVID-19	5.35%	6.29%	5.43%
Property price QoQ Change %	Base	0.41%	0.64%	0.60%
	Good	0.41%	3.93%	1.20%
	Bad	0.41%	-4.84%	-1.24%
	COVID-19	-5.22%	-2.94%	0.38%
Exchange Rate (HKD/USD)	Base	7.793	7.750	7.544
	Good	7.386	7.363	7.167
	Bad	7.985	7.992	7.997
	COVID-19	7.985	7.992	7.997
Mainland China Forecast Factors				
GDP QoQ Change %	Base	1.99%	0.70%	1.35%
	Good	1.99%	1.76%	1.61%
	Bad	1.99%	-2.57%	0.73%
	COVID-19	-1.41%	-0.40%	1.38%
Unemployment rate	Base	3.69%	3.68%	3.80%
	Good	3.69%	3.02%	3.10%
	Bad	3.69%	4.98%	5.66%
	COVID-19	4.93%	5.91%	5.94%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Economic variable assumptions (Continued)

As the forward-looking ECL estimates involve high level management judgment, the Group has also performed sensitive analysis to ascertain change in existing model as part of overall governance. As at December 2020, the ECL estimate of Stage 1 and Stage 2 was HKD 732 million with the probability weighting assigned as 5%, 40%, 20% and 35% to Good, Base, Bad and COVID-19 scenarios respectively. If the probability weighting for COVID-19 scenario increases or decreases by 5%, the ECL estimate would increase or decrease by 5% to HKD 770 million or HKD 695 million respectively.

As of 31 Dec 2019, the most significant assumptions used for the ECL estimate were set out below:

	Scenario	Average (2020 - 2022)
Hong Kong Forecast Factors		
Domestic GDP YoY Growth %	Base	1.20%
	Good	6.40%
	Bad	(5.31%)
Exchange Rate (HKD/USD)	Base	7.690
	Good	7.305
	Bad	7.991
House Price Index YoY Change	Base	4.93%
	Good	12.43%
	Bad	(19.01%)

In the table above, the exchange rate of HKD/USD for Good and Bad scenario is assumed with no boundary by the Linked Exchange Rate System.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis.

Management judgement and overlay

The Group had applied management overlay in 2019 to account for the limitations of modelling approach and data availability. The ECL result of the management overlay represented approximately 0.07% of the advances to customers balance. As the Group adopted the internal credit risk rating in PD estimates, the impact of management overlay was no longer material to ECL estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Management judgement and overlay (Continued)

In response to the impact of COVID-19, the Group had coordinated with the HKMA in launching various forms of relief measures, such as Pre-approved Principal Payment Holiday Scheme together with the Banking Sector SME Lending Coordination Mechanism, to eligible retail and corporate customers to alleviate the financial pressure and impact of the pandemic. Payment deferments were considered as commercial terms. No material modification gains or losses were recognised. In line with regulatory guidelines, customers' utilisation of relief measures does not automatically trigger the migration to Stage 2. Ongoing risk screening and assessment of customer's risk of default continues to be performed by the Bank comprehensively, taking into account the customer's ability to make payments based on the rescheduled payments and their creditworthiness in the long term.

Credit risk exposure

Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments. For advances to customers and loan commitments and financial guarantee contracts, credit rating from "Guideline on loan classification system" issued by Hong Kong Monetary Authority is adopted. For debt securities, short-term funds and placements with banks, credit rating from Moody's, or equivalent, is adopted. Debt securities not rated by Moody's, or equivalent, are treated as unrated ones. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

CREDIT RISK (Continued)

Credit risk exposure (Continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

Advances to customers

	2020			Total HK\$'000
	Stage 1 12-month ECL HK\$'000	Stage 2 Lifetime ECL HK\$'000	Stage 3 Lifetime ECL HK\$'000	
Credit rating				
Pass	137,458,053	3,188,073	–	140,646,126
Special mention	–	813,015	2,880	815,895
Substandard	–	–	595,049	595,049
Doubtful	–	–	241,223	241,223
Loss	–	–	83,324	83,324
Gross carrying amount at 31 December	137,458,053	4,001,088	922,476	142,381,617
Loss allowance	428,285	108,518	342,486	879,289
Carrying amount at 31 December	137,029,768	3,892,570	579,990	141,502,328
	2019			
	Stage 1 12-month ECL HK\$'000	Stage 2 Lifetime ECL HK\$'000	Stage 3 Lifetime ECL HK\$'000	Total HK\$'000
Credit rating				
Pass	116,906,160	279,711	–	117,185,871
Special mention	–	493,768	3,817	497,585
Substandard	–	1,674	162,140	163,814
Doubtful	–	–	43,669	43,669
Loss	–	–	187,975	187,975
Gross carrying amount at 31 December	116,906,160	775,153	397,601	118,078,914
Loss allowance	382,053	43,710	193,597	619,360
Carrying amount at 31 December	116,524,107	731,443	204,004	117,459,554

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

CREDIT RISK (Continued)

Credit risk exposure (Continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

Debt securities

	2020			Total HK'000
	Stage 1	Stage 2	Stage 3	
	12-month ECL HK'000	Lifetime ECL HK'000	Lifetime ECL HK'000	
Credit rating				
Aaa	2,120,829	–	–	2,120,829
Aa1 to Aa3	4,644,032	–	–	4,644,032
A1 to A3	29,131,589	–	–	29,131,589
Lower than A3	13,733,853	–	–	13,733,853
Unrated	2,773,645	384,192	–	3,157,837
Gross carrying amount at 31 December	52,403,948	384,192	–	52,788,140
Loss allowance	107,240	33,052	–	140,292
Carrying amount at 31 December	52,296,708	351,140	–	52,647,848

	2019			Total HK'000
	Stage 1	Stage 2	Stage 3	
	12-month ECL HK'000	Lifetime ECL HK'000	Lifetime ECL HK'000	
Credit rating				
Aaa	5,600,149	–	–	5,600,149
Aa1 to Aa3	13,502,275	–	–	13,502,275
A1 to A3	22,756,999	–	–	22,756,999
Lower than A3	11,256,379	–	–	11,256,379
Unrated	4,288,785	–	–	4,288,785
Gross carrying amount at 31 December	57,404,587	–	–	57,404,587
Loss allowance	100,301	–	–	100,301
Carrying amount at 31 December	57,304,286	–	–	57,304,286

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

CREDIT RISK (Continued)

Credit risk exposure (Continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

Loan commitments and financial guarantee contracts

	2020			
	Stage 1 12-month ECL HK'000	Stage 2 Lifetime ECL HK'000	Stage 3 Lifetime ECL HK'000	Total HK'000
Credit rating				
Pass	14,229,537	125,956	–	14,355,493
Special mention	–	6,169	–	6,169
Substandard	–	–	10,242	10,242
Doubtful	–	–	–	–
Loss	–	–	–	–
Gross carrying amount at 31 December	14,229,537	132,125	10,242	14,371,904
Loss allowance	23,173	5,207	2,729	31,109
Carrying amount at 31 December	14,206,364	126,918	7,513	14,340,795
	2019			
	Stage 1 12-month ECL HK'000	Stage 2 Lifetime ECL HK'000	Stage 3 Lifetime ECL HK'000	Total HK'000
Credit rating				
Pass	16,591,634	4	–	16,591,638
Special mention	–	6,929	–	6,929
Substandard	–	–	–	–
Doubtful	–	–	–	–
Loss	–	–	–	–
Gross carrying amount at 31 December	16,591,634	6,933	–	16,598,567
Loss allowance	7,263	5,479	–	12,742
Carrying amount at 31 December	16,584,371	1,454	–	16,585,825

Short-term funds and placements with banks

The Group held, short-term funds and placements with banks of HK\$22,876,322,000 at 31 December 2020 (31 December 2019: HK\$25,112,289,000), which are rated at investment grade based on Moody's or equivalent ratings. The placements with banks is neither past due nor impaired and unsecured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Credit risk exposure (Continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL):

	2020 HK'000	2019 HK'000
Financial assets at fair value through profit or loss		
– Debt securities	124,053	140,494
– Derivatives	1,559,121	675,033
Hedging Derivatives	86,329	30,897

Collateral and other credit enhancements

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Margin agreement for derivatives, for which the Group has also entered into master netting agreements;
- Charges over business premises; and
- Charges over financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments. Derivatives are also collateralised.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

CREDIT RISK (Continued)

Collateral and other credit enhancements (Continued)

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

Credit-impaired assets

	2020			
	Gross exposure	Stage 3		Fair value of collateral held
		ECL allowance	Carrying amount	
	HK'000	HK'000	HK'000	HK'000
Loans and advances to customers				
Overdrafts	42,353	(15,430)	26,923	29,016
Instalment loans	43,389	(5,937)	37,452	105,088
Term loans	256,474	(81,384)	175,090	132,215
Syndication loans	164,920	(88,857)	76,063	–
Trade finance	412,362	(150,384)	261,978	69,610
Personal loans and tax loans	2,707	(223)	2,484	5,622
Other	271	(271)	–	–
Total credit-impaired assets	922,476	(342,486)	579,990	341,551
	2019			
	Gross exposure	Stage 3		Fair value of collateral held
		ECL allowance	Carrying amount	
	HK'000	HK'000	HK'000	HK'000
Loans and advances to customers				
Overdrafts	36,166	(4,025)	32,141	46,851
Instalment loans	27,873	(4,458)	23,415	93,147
Term loans	28,000	(11,720)	16,280	16,809
Syndication loans	100,656	(100,656)	–	–
Trade finance	204,231	(72,454)	131,777	99,317
Personal loans and tax loans	268	–	268	367
Other	407	(284)	123	–
Total credit-impaired assets	397,601	(193,597)	204,004	256,491

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

CREDIT RISK (Continued)

Loss allowance

The following tables explain the changes in gross exposure and the loss allowance between the beginning and the end of the annual period due to these factors:

Advances to customers

	2020							
	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total	
	Gross exposure HK\$'000	Allowance HK\$'000	Gross exposure HK\$'000	Allowance HK\$'000	Gross exposure HK\$'000	Allowance HK\$'000	Gross exposure HK\$'000	Allowance HK\$'000
Balance at 1 January	116,906,160	382,053	775,153	43,710	397,601	193,597	118,078,914	619,360
Transfers:								
Transfer from Stage 1 to Stage 2	(3,621,203)	(11,731)	3,621,203	55,184	-	-	-	43,453
Transfer from Stage 2 to Stage 1	145,462	130	(145,462)	(5,727)	-	-	-	(5,597)
Transfer to Stage 3	(633,635)	(3,806)	(6,779)	(216)	640,414	220,508	-	216,486
Transfer from Stage 3	1,872	-	-	-	(1,872)	(165)	-	(165)
Net new financial assets originated/(asset derecognised)	27,739,487	113,325	145,256	(3,125)	55,901	7,227	27,940,644	117,427
Changes in PDs/LGDs/EADs	(3,080,090)	(46,286)	(388,283)	(15,443)	(69,661)	24,395	(3,538,034)	(37,334)
Changes in model assumption and methodologies	-	(13,896)	-	33,501	-	-	-	19,605
Amounts written off	-	-	-	-	(99,907)	(99,907)	(99,907)	(99,907)
Other movements	-	8,496	-	634	-	(3,169)	-	5,961
Balance at 31 December	137,458,053	428,285	4,001,088	108,518	922,476	342,486	142,381,617	879,289
								Total HK\$'000
Change in ECL in income statement charge for the year								353,875
Add: Recoveries								(2,433)
Add: Others								10,792
Total ECL charge for the year								362,234

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

CREDIT RISK (Continued)

Loss allowance (Continued)

Advances to customers (Continued)

	2019							
	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total	
	Gross exposure HK\$'000	Allowance HK\$'000	Gross exposure HK\$'000	Allowance HK\$'000	Gross exposure HK\$'000	Allowance HK\$'000	Gross exposure HK\$'000	Allowance HK\$'000
Balance at 1 January	100,898,880	379,031	573,117	12,382	353,230	154,435	101,825,227	545,848
Transfers:								
Transfer from Stage 1 to Stage 2	(583,409)	(3,363)	583,409	27,419	-	-	-	24,056
Transfer from Stage 2 to Stage 1	101,393	753	(101,393)	(3,396)	-	-	-	(2,643)
Transfer to Stage 3	(229,670)	(607)	(2,625)	(53)	232,295	9,592	-	8,932
Transfer from Stage 3	-	-	-	-	-	-	-	-
Net new financial assets originated/(asset derecognised)	21,395,850	69,419	(118,045)	13,981	(142,451)	1,490	21,135,354	84,890
Changes in PDs/LGDs/EADs	(4,676,884)	(35,501)	(159,310)	(1,154)	(39,386)	36,246	(4,875,580)	(409)
Changes in model assumption and methodologies	-	(24,530)	-	(2,326)	-	-	-	(26,856)
Amounts written off	-	-	-	-	(6,087)	(6,087)	(6,087)	(6,087)
Other movements	-	(3,149)	-	(3,143)	-	(2,079)	-	(8,371)
Balance at 31 December	116,906,160	382,053	775,153	43,710	397,601	193,597	118,078,914	619,360
								Total HK\$'000
Change in ECL in income statement charge for the year								87,970
Add: Recoveries								(1,065)
Add: Others								9,925
Total ECL charge for the year								96,830

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)***CREDIT RISK** *(Continued)***Loss allowance** *(Continued)*

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Debt securities

	2020			Total HK\$'000
	Stage 1 12-month ECL HK\$'000	Stage 2 Lifetime ECL HK\$'000	Stage 3 Lifetime ECL HK\$'000	
Balance at 1 January	100,301	–	–	100,301
Transfers:				
Transfer from Stage 1 to Stage 2	(1,205)	26,177	–	24,972
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net purchase of debt securities	3,016	–	–	3,016
Changes in PDs/LGDs/EADs	2,090	–	–	2,090
Changes in model assumption and methodologies	3,045	6,875	–	9,920
Other movements	(7)	–	–	(7)
Balance at 31 December	107,240	33,052	–	140,292
Of which:				
For debt securities at amortised cost	9,811	–	–	9,811
For debt securities at FVOCI	97,429	33,052	–	130,481
	107,240	33,052	–	140,292

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

CREDIT RISK (Continued)

Loss allowance (Continued)

Debt securities (Continued)

	2019			Total HK\$'000
	Stage 1	Stage 2	Stage 3	
	12-month ECL HK\$'000	Lifetime ECL HK\$'000	Lifetime ECL HK\$'000	
Balance at 1 January	66,047	–	–	66,047
Transfers:				
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net purchase of debt securities	14,380	–	–	14,380
Changes in PDs/LGDs/EADs	26,541	–	–	26,541
Changes in model assumption and methodologies	(6,667)	–	–	(6,667)
Other movements	–	–	–	–
Balance at 31 December	100,301	–	–	100,301
Of which:				
For debt securities at amortised cost	120	–	–	120
For debt securities at FVOCI	100,181	–	–	100,181
	100,301	–	–	100,301

The impairment allowances of debt securities at FVOCI are not recognised in the statement of financial position as the carrying amount of debt securities at FVOCI is their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

CREDIT RISK (Continued)

Loss allowance (Continued)

Loan commitments and financial guarantee contracts

	2020			
	Stage 1 12-month ECL HK\$'000	Stage 2 Lifetime ECL HK\$'000	Stage 3 Lifetime ECL HK\$'000	Total HK\$'000
Balance at 1 January	7,263	5,479	–	12,742
Transfers:				
Transfer from Stage 1 to Stage 2	(699)	3,682	–	2,983
Transfer from Stage 2 to Stage 1	13	(780)	–	(767)
Transfer to Stage 3	(538)	–	2,729	2,191
Transfer from Stage 3	–	–	–	–
Net increase (decrease) of loan commitment and financial guarantee contracts	14,593	126	–	14,719
Changes in PDs/LGDs/EADs	14,317	(8,328)	–	5,989
Changes in model assumption and methodologies	(12,008)	5,018	–	(6,990)
Other movements	232	10	–	242
Balance at 31 December	23,173	5,207	2,729	31,109

	2019			
	Stage 1 12-month ECL HK\$'000	Stage 2 Lifetime ECL HK\$'000	Stage 3 Lifetime ECL HK\$'000	Total HK\$'000
Balance at 1 January	9,855	927	7	10,789
Transfers:				
Transfer from Stage 1 to Stage 2	(615)	4,758	–	4,143
Transfer from Stage 2 to Stage 1	12	(58)	–	(46)
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net increase (decrease) of loan commitment and financial guarantee contracts	84	(204)	(7)	(127)
Changes in PDs/LGDs/EADs	(943)	178	–	(765)
Changes in model assumption and methodologies	(1,130)	(122)	–	(1,252)
Other movements	–	–	–	–
Balance at 31 December	7,263	5,479	–	12,742

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

CREDIT RISK (Continued)

Loss allowance (Continued)

Short-term funds and placements with banks

	2020			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL HK\$'000	Lifetime ECL HK\$'000	Lifetime ECL HK\$'000	
Balance at 1 January	23,980	–	–	23,980
Transfers:				
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net decrease in short-term funds and placements with banks	(7,782)	–	–	(7,782)
Changes in PDs/LGDs/EADs	14,208	–	–	14,208
Changes in model assumption and methodologies	(4,780)	–	–	(4,780)
Other movements	1,313	–	–	1,313
Balance at 31 December	26,939	–	–	26,939

	2019			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL HK\$'000	Lifetime ECL HK\$'000	Lifetime ECL HK\$'000	
Balance at 1 January	19,278	–	–	19,278
Transfers:				
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net decrease in short-term funds and placements with banks	(786)	–	–	(786)
Changes in PDs/LGDs/EADs	6,398	–	–	6,398
Changes in model assumption and methodologies	(768)	–	–	(768)
Other movements	(142)	–	–	(142)
Balance at 31 December	23,980	–	–	23,980

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

CREDIT RISK (Continued)

Loss allowance (Continued)

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

	31 December 2020				
	Gross loans and advances HK\$'000	Stage 1 & stage 2 impairment allowances HK\$'000	Stage 3 impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000	Gross impaired advances HK\$'000
	<i>(Note 1)</i>				
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	6,323,019	4,664	–	3,848,626	–
– Property investment	10,905,346	11,777	370	7,138,033	20,972
– Financial concerns	6,903,546	2,466	–	473,072	–
– Stockbrokers	3,301,700	707	–	1,587,367	–
– Wholesale and retail trade	1,682,849	14,383	97,948	1,264,065	236,295
– Manufacturing	1,031,581	3,367	5,841	367,010	5,841
– Transport and transport equipment	1,238,341	24,582	221	677,341	2,705
– Recreational activities	483	–	–	483	–
– Information technology	1,767,848	11,264	–	46,459	–
– Others (Note 2)	7,032,379	31,925	4,757	3,763,159	5,033
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	442,339	63	48	442,358	1,461
– Loans for the purchase of other residential properties	8,996,177	760	2,740	8,956,824	28,832
– Credit card advances	62,232	315	617	–	617
– Others (Note 3)	4,637,113	4,662	1,123	3,580,255	8,665
	54,324,953	110,935	113,665	32,145,052	310,421
Trade finance	9,232,081	35,077	122,004	488,963	321,655
Loans for use outside Hong Kong	78,824,583	390,791	106,817	18,810,255	290,400
	142,381,617	536,803	342,486	51,444,270	922,476

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7. FINANCIAL RISK MANAGEMENT (Continued)

CREDIT RISK (Continued)

Loss allowance (Continued)

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

- Notes:
- Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.
 - Major items mainly included loans to businesses in electricity and gas, hotels, catering, margin lending and other business purposes.
 - Major items mainly included loans to professionals and other individuals for various private purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

CREDIT RISK *(Continued)*

Write-off

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2020 was HK\$99,907,000 (31 December 2019: HK\$6,087,000).

The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

Modification of financial assets

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Group monitors the subsequent performance of modified assets. The gross carrying amount of such assets held as at 31 December 2020 was HK\$91,006,000 (31 December 2019: HK\$1,724,000).

The Group continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of individual credit assessment.

The following table includes summary information for financial assets with lifetime ECL whose cash flows were modified during the year and their respective effect on the Group's financial performance is considered immaterial.

	2020 HK\$'000	2019 HK\$'000
Advance to customers Amortised cost before modification	89,793	250

Concentration of risks of financial assets with credit risk exposure

Concentration of credit risk exists when changes in geographical or industry factors similarly affect counterparties whose aggregate credit exposure is material in relation to the Group's total exposures.

An analysis of geographical and industry sector concentration of the Group's and the Bank's financial assets that best represent the maximum exposure to credit risk is disclosed on the next page.

The geographical locations of the financial assets are determined by the locations of the counterparties with the ultimate credit exposures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

CREDIT RISK (Continued)

Concentration of risks of financial assets with credit risk exposure (Continued)

Geographical locations

	Asia Pacific excluding Hong Kong			Total HK\$'000
	Hong Kong HK\$'000	Hong Kong HK\$'000 (Note 1)	Others HK\$'000 (Note 2)	
At 31 December 2020				
Short-term funds	14,049,345	6,223,730	1,125,144	21,398,219
Placements with banks	1,005,128	472,974	1	1,478,103
Derivative financial instruments	300,298	241,434	1,103,718	1,645,450
Financial assets at fair value through profit or loss	–	124,053	–	124,053
Financial assets measured at FVOCI				
– debt securities	16,146,446	27,787,260	6,179,571	50,113,277
– trade bills	–	5,176,771	–	5,176,771
Financial assets measured at amortised cost	230,287	2,212,552	91,840	2,534,679
Advances and other accounts	98,201,571	51,594,323	2,487,198	152,283,092
	129,933,075	93,833,097	10,987,472	234,753,644
At 31 December 2019				
Short-term funds	2,412,859	14,922,314	2,252,066	19,587,239
Placements with banks	2,597,730	2,927,319	–	5,525,049
Derivative financial instruments	135,798	135,032	435,100	705,930
Financial assets at fair value through profit or loss	–	140,494	–	140,494
Financial assets measured at FVOCI				
– debt securities	22,859,260	23,980,156	9,984,237	56,823,653
– trade bills	–	–	–	–
Financial assets measured at amortised cost	1,987	459,234	19,412	480,633
Advances and other accounts	89,842,701	34,217,619	1,922,476	125,982,796
	117,850,335	76,782,168	14,613,291	209,245,794

Notes: 1. The countries reported in "Asia Pacific excluding Hong Kong" mainly included the Mainland China, Japan, Australia and other Asian countries.

2. The countries reported in "Others" mainly included Canada, United States and other European countries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

CREDIT RISK (Continued)

Concentration of risks of financial assets with credit risk exposure (Continued)

Industry sectors

	Banks and other financial institutions HK\$'000	Central governments and central banks HK\$'000	Public sector entities HK\$'000	Corporate entities HK\$'000	Others HK\$'000	Total HK\$'000
At 31 December 2020						
Short-term funds	8,710,464	12,687,755	-	-	-	21,398,219
Placements with banks	1,478,103	-	-	-	-	1,478,103
Derivative financial instruments	1,085,217	-	-	560,233	-	1,645,450
Financial assets at fair value through profit or loss	-	-	-	124,053	-	124,053
Financial assets measured at FVOCI						
– debt securities	9,914,030	21,233,068	-	18,966,179	-	50,113,277
– trade bills	-	-	-	5,176,771	-	5,176,771
Financial assets measured at amortised cost	630,603	475,743	-	1,428,333	-	2,534,679
Advances and other accounts	15,863,285	2,933,034	1,472,104	114,628,625	17,386,044	152,283,092
	<u>37,681,702</u>	<u>37,329,600</u>	<u>1,472,104</u>	<u>140,884,194</u>	<u>17,386,044</u>	<u>234,753,644</u>
At 31 December 2019						
Short-term funds	17,623,954	1,963,285	-	-	-	19,587,239
Placements with banks	4,101,649	-	-	1,423,400	-	5,525,049
Derivative financial instruments	602,457	-	611	102,796	66	705,930
Financial assets at fair value through profit or loss	-	140,494	-	-	-	140,494
Financial assets measured at FVOCI						
– debt securities	20,945,295	16,109,168	-	19,769,190	-	56,823,653
– trade bills	-	-	-	-	-	-
Financial assets measured at amortised cost	19,368	459,265	-	2,000	-	480,633
Advances and other accounts	7,398,681	2,522,222	949,408	99,160,646	15,951,839	125,982,796
	<u>50,691,404</u>	<u>21,194,434</u>	<u>950,019</u>	<u>120,458,032</u>	<u>15,951,905</u>	<u>209,245,794</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

CREDIT RISK (Continued)

Debt securities

Financial investments by rating agency designation

The following tables present analysis of financial securities, other than loans and advances, held by the Group and the Bank by rating agency designation at the end of the reporting period, based on Moody's or equivalent ratings. Financial securities not rated by Moody's, or equivalent, are treated as unrated ones.

	Financial assets			
	at fair value through profit or loss HK\$'000	Financial assets at FVOCI HK\$'000	Financial assets at amortised cost HK\$'000	Total HK\$'000
At 31 December 2020				
Aaa	–	2,120,375	–	2,120,375
Aa1 to Aa3	–	4,642,776	–	4,642,776
A1 to A3	122,702	27,522,291	1,551,324	29,196,317
Lower than A3	–	13,007,548	687,490	13,695,038
Unrated	1,351	2,820,287	295,865	3,117,503
Total	124,053	50,113,277	2,534,679	52,772,009
At 31 December 2019				
Aaa	–	5,599,221	–	5,599,221
Aa1 to Aa3	–	13,497,952	–	13,497,952
A1 to A3	116,017	22,225,630	478,633	22,820,280
Lower than A3	–	11,227,317	–	11,227,317
Unrated	24,477	4,273,533	2,000	4,300,010
Total	140,494	56,823,653	480,633	57,444,780

Repossessed collateral

Repossessed assets held by the Group as at 31 December 2020 was HK\$15,250,000 (31 December 2019: HK\$Nil).

Repossessed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices, including foreign exchange rates, interest rates, commodity prices, and equity prices etc.

Market risk exposures are separated into trading and non-trading portfolios. Trading portfolios comprise positions arising from market-making and warehousing of customer derived positions. Market risk arising from trading portfolios is at acceptable level, as the Group maintains controllable positions of financial instruments leading to foreign exchange and interest rate risk exposures.

Non-trading portfolios comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments designated as FVOCI and amortised cost, and exposures arising from our daily risk management operations.

From time to time, the Group may use derivatives to mitigate market risk exposure driven by price fluctuation in interest rate and foreign exchange rate affecting trading and non-trading portfolios.

Market risk management

Market risk is measured in terms of value at risk ("VaR"), which is used to estimate potential losses on risk positions in the trading portfolio as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence; Meanwhile, it is also subject to market risk exposure measurement by sensitivity of foreign exchange which are applied to the market risk positions within each risk type; The Group has maintained a controllable of market risk exposure (interest rate and foreign exchange risk) for both trading and customer order fulfillment managed by the Financial Markets Division within approved limits in day to day business.

The market risk positions are managed using risk limits approved by the Group. These limits are allocated across business lines and to the Group's legal entities. Daily risk monitoring is carried out independently by Market Risk Management Department, which ensures all dealing activities are conducted in a proper manner and within approved limits. The Group's market risk exposures are periodically reviewed by the Board, Risk Management Committee ("RMC") and senior management.

The Group has established standards, policies and procedures to control and monitor the market risk under the Board Risk Committee ("RC") and RMC management oversight. The Policy, together with limits and underlying assumptions therein, is subject to be regularly reviewed and approved by the RMC at least once a year.

The Bank adopts scenario-based approach in stress-testing. Stress tests are performed regularly to assess the potential losses under extreme market conditions. The Board, Risk Committee and senior management review stress test results on a regular basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

MARKET RISK (Continued)

Currency risk

The assets and liabilities of the Group are mainly denominated in United States dollars ("US\$"), Renminbi ("RMB") and Hong Kong dollars ("HK\$"). The Group adopts a policy of predominately matching the assets with liabilities in the same currency, effectively reducing the foreign currency exchange rate exposure. Limits are set to ensure that the net foreign currency exposure is kept to an acceptable level. The Group uses foreign exchange spot and forward contracts to manage its foreign currency risk.

The following tables indicate the concentration of currency risk at the end of each reporting periods:

	HK\$ HK\$'000	US\$ HK\$'000	RMB HK\$'000	Others HK\$'000 (Note)	Total HK\$'000
At 31 December 2020					
Assets					
Cash and short-term funds	13,257,591	811,395	7,389,939	341,718	21,800,643
Placements with banks	104,420	1,034,839	338,844	-	1,478,103
Derivative financial instruments	1,478,780	138,498	28,172	-	1,645,450
Financial assets at fair value through profit or loss	91	-	124,053	-	124,144
Financial assets measured at FVOCI	10,625,977	28,827,185	6,415,777	4,325,990	50,194,929
Financial assets measured at amortised cost	2,000	1,823,053	551,087	158,539	2,534,679
Advances to customers	85,495,748	17,234,406	39,486,751	164,712	142,381,617
Advances to banks	-	-	1,103,409	-	1,103,409
Other financial assets	1,665,545	2,486,379	4,631,082	15,060	8,798,066
Total financial assets	112,630,152	52,355,755	60,069,114	5,006,019	230,061,040
Liabilities					
Deposits and balances of banks	257,286	420,042	7,552,246	-	8,229,574
Financial assets sold under repurchase agreements	-	7,978	778,562	-	786,540
Deposits from customers	108,704,370	19,117,190	51,370,342	4,036,389	183,228,291
Derivative financial instruments	1,447,557	2,261,863	36,026	30,036	3,775,482
Certificates of deposit	130,006	2,421,524	-	-	2,551,530
Loan capital	-	3,033,178	-	-	3,033,178
Other financial liabilities	1,554,690	592,429	1,083,717	10,972	3,241,808
Total financial liabilities	112,093,909	27,854,204	60,820,893	4,077,397	204,846,403
Net position – total financial assets and liabilities	536,243	24,501,551	(751,779)	928,622	25,214,637

Note: Currencies included in "Others" mainly represented Macau Pataca, Australian dollars and New Zealand dollars.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

MARKET RISK (Continued)

Currency risk (Continued)

	HK\$ HK\$'000	US\$ HK\$'000	RMB HK\$'000	Others HK\$'000 (Note)	Total HK\$'000
At 31 December 2019					
Assets					
Cash and short-term funds	6,055,816	2,796,317	8,340,322	3,212,050	20,404,505
Placements with banks	946,858	77,865	4,500,326	–	5,525,049
Derivative financial instruments	642,183	63,661	–	86	705,930
Financial assets at fair value through profit or loss	193	–	140,494	–	140,687
Financial assets measured at FVOCI	12,917,476	33,390,056	5,467,109	5,138,632	56,913,273
Financial assets measured at amortised cost	1,987	19,412	294,288	164,946	480,633
Advances to customers	77,916,771	16,679,243	23,409,972	72,928	118,078,914
Advances to banks	–	–	837,275	–	837,275
Other financial assets	1,620,489	1,726,734	3,683,286	36,098	7,066,607
Total financial assets	100,101,773	54,753,288	46,673,072	8,624,740	210,152,873
Liabilities					
Deposits and balances of banks	104,682	834,638	4,523,962	1,486,639	6,949,921
Financial assets sold under repurchase agreements	–	3,157,842	1,096,010	–	4,253,852
Deposits from customers	100,402,686	17,681,643	39,889,653	4,690,666	162,664,648
Derivative financial instruments	174,674	1,404,797	25,506	297,974	1,902,951
Certificates of deposit	460,976	2,952,516	335,583	–	3,749,075
Loan capital	–	4,579,912	–	–	4,579,912
Other financial liabilities	1,850,043	601,170	695,560	25,914	3,172,687
Total financial liabilities	102,993,061	31,212,518	46,566,274	6,501,193	187,273,046
Net position – total financial assets and liabilities	(2,891,288)	23,540,770	106,798	2,123,547	22,879,827

Note: Currencies included in "Others" mainly represented Macau Pataca, Australian dollars and New Zealand dollars.

The Group entered into a number of foreign currency forward contracts to manage the currency risk exposure, details of which are set out in note 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

MARKET RISK (Continued)

Currency risk (Continued)

Foreign currency sensitivity analysis

The Group mainly exposes to US dollars and Renminbi. The following table illustrates sensitivity measure of the currency risk exposure given ± 1 and ± 5 (2019: ± 1 and ± 5) per cent change in exchange rate of US dollars/Renminbi against Hong Kong dollars.

	Change in currency rate			
	US dollars		Renminbi	
	Appreciate +1%	Depreciate -1%	Appreciate + 5%	Depreciate -5%
Hong Kong dollars equivalents (HK\$'000)				
2020				
Profit after tax	76,748	(76,748)	5,702	(5,702)
Other comprehensive income (after tax)	–	–	225,084	(225,084)

	Change in currency rate			
	US dollars		Renminbi	
	Appreciate +1%	Depreciate -1%	Appreciate + 5%	Depreciate -5%
Hong Kong dollars equivalents (HK\$'000)				
2019				
Profit after tax	24,283	(24,283)	(9,017)	9,017
Other comprehensive income (after tax)	–	–	201,722	(201,722)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk

Interest rate risk is referred to the risk to the Bank's financial condition resulting from adverse movements in interest rates. This consists of gap risk, basis risk and option risk. Interest margins may increase as a result of such changes in favor of the Bank, but also result negative impacts in the event that unexpected or adverse movement arises.

Interest rate risk comprises those originating from both trading and non-trading portfolios, and the Group's interest rate risk exposure is mainly contributed by non-trading portfolio. In non-trading portfolio, the management of Group's interest rate risk in banking book ("IRRBB") is governed by the Interest Rate Risk Management Policy which is reviewed and endorsed by the ALCO and approved by the EXCO. the Group also manages its IRRBB within the IRRBB limits approved by ALCO and under monitoring of Market Risk Management Department independently, which regularly report to both ALCO and RMC for senior management oversight. In trading portfolio, specific limits are approved by RMC on interest rate sensitivities (also known as DV01) and stop loss, which are monitored on a daily basis. The Group maintains manageable interest rate positions on its trading book, in addition to certain interest rate contracts entered into for the management of the Group's own risk with holding securities that are classified as the trading purpose.

The Group also manages the positions under IRRBB arising from investments in approved financial instruments that are gauged by the internal guideline and relevant risk limits. Hedging for these interest rate positions would be executed through interest rate derivatives whenever deemed necessary, and non-hedged positions will contain within the normal banking businesses where the risks originate.

Interest rate risk in banking book

IRRBB refers to the risk against the Bank's capital and earnings due to adverse movements in interest rates. Banking book positions refer to assets and liabilities such as loans, deposits and financial instruments that evolve with normal banking businesses and are not for trading. When interest rates change, the future cash flows attached with these non-trading assets and liabilities change.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk in banking book (Continued)

The calculation of the IRRBB gapping is processed through an automatic system on a daily basis. Market Risk Management Department monitors the IRRBB gapping results against the approved risk limits. Cashflows arising from interest rate sensitive assets, liabilities and off-balance sheet positions are slotted; with embedded optional adjustments based on various business models, including prepayment model, early-redemption model and behavioural models for non-maturity deposits ("NMDs").

The Group manages the interest rate risk exposure for its NMDs through Co-integration Model for Deposit Volume on core deposit ratio and decay rate Approach on behavioural maturity. For the core deposit ratio, the Group followed regulatory guidelines by first estimating stable deposit ratio using the Group's deposit balance data over the past 10 years, and then developing statistical models to estimate the core deposit ratio. In estimating the core deposit ratio, the Group aimed to measure the percentage of stable deposits that would remain with the bank even under significant interest rate changes. In estimating behavioural maturity, the Group followed the run-off approach, which estimates the decay rate of the deposit balance. The behavioural maturity was obtained based on the decay-rate estimates.

In the loan and some of the term deposit products, the Group takes into accounts of early prepayment/withdrawal behaviour of its customers. The parameters are based on historical observations, statistical analyses and expert assessments. Furthermore, the Group generally calculates IRRBB related metrics in contractual currencies and aggregates the resulting metrics for reporting purposes.

Stress tests on IRRBB are conducted regularly. Coverage of stress scenarios are comprehensive with forward-looking, and they are composed of risk factors that can significantly affect the Bank.

The Group conducts periodic reviews of the risk management process for IRRBB in order to ensure its integrity, accuracy and reasonableness in response to changing market condition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

MARKET RISK (Continued)

Interest rate risk (Continued)

	Up to 3 months HK\$'000	3 – 12 months HK\$'000	1 – 5 years HK\$'000	Over 5 years HK\$'000	Non-interest bearing HK\$'000	Total HK\$'000
At 31 December 2020						
Assets						
Cash and short-term funds	21,195,689	144,777	–	–	460,177	21,800,643
Placements with banks	1,020,886	457,217	–	–	–	1,478,103
Derivative financial instruments	184,985	36,656	–	–	1,423,809	1,645,450
Financial assets at fair value through profit or loss	124,053	–	–	–	91	124,144
Financial assets measured at FVOCI	23,939,565	20,196,156	3,743,339	2,234,217	81,652	50,194,929
Financial assets measured at amortised cost	1,077,536	1,359,847	97,296	–	–	2,534,679
Advances to customers	27,447,567	45,337,746	52,826,443	15,446,182	1,323,679	142,381,617
Advances to banks	1,103,409	–	–	–	–	1,103,409
Other financial assets	985,473	169,484	–	–	7,643,109	8,798,066
Total financial assets	77,079,163	67,701,883	56,667,078	17,680,399	10,932,517	230,061,040
Liabilities						
Deposits and balances of banks	6,324,232	1,894,008	–	–	11,334	8,229,574
Financial assets sold under repurchase agreements	786,540	–	–	–	–	786,540
Deposits from customers	153,905,136	18,894,087	10,328,185	58,943	41,940	183,228,291
Derivative financial instruments	1,002,746	1,376,676	–	–	1,396,060	3,775,482
Certificates of deposit	130,006	2,421,524	–	–	–	2,551,530
Loan capital	–	–	3,033,178	–	–	3,033,178
Other financial liabilities	224,963	133,934	311,806	73,003	2,498,102	3,241,808
Total financial liabilities	162,373,623	24,720,229	13,673,169	131,946	3,947,436	204,846,403
Net position – total financial assets and liabilities	(85,294,460)	42,981,654	42,993,909	17,548,453	6,985,081	25,214,637

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

MARKET RISK (Continued)

Interest rate risk (Continued)

	Up to 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2019						
Assets						
Cash and short-term funds	17,725,996	2,206,408	–	–	472,101	20,404,505
Placements with banks	3,925,434	1,599,615	–	–	–	5,525,049
Derivative financial instruments	77,537	29,532	–	–	598,861	705,930
Financial assets at fair value						
through profit or loss	–	–	24,565	115,929	193	140,687
Financial assets measured at FVOCI	31,667,229	21,065,035	3,452,610	638,779	89,620	56,913,273
Financial assets measured						
at amortised cost	72,817	95,739	19,412	292,665	–	480,633
Advances to customers	92,572,893	9,468,691	7,904,393	7,010,248	1,122,689	118,078,914
Advances to banks	837,275	–	–	–	–	837,275
Other financial assets	422,469	664,942	53,367	3,873	5,921,956	7,066,607
Total financial assets	147,301,650	35,129,962	11,454,347	8,061,494	8,205,420	210,152,873
Liabilities						
Deposits and balances of banks	4,410,690	2,533,176	–	–	6,055	6,949,921
Financial assets sold under						
repurchase agreements	4,253,852	–	–	–	–	4,253,852
Deposits from customers	141,662,792	13,464,182	7,536,929	–	745	162,664,648
Derivative financial instruments	539,535	767,492	–	–	595,924	1,902,951
Certificates of deposit	2,461,930	1,287,145	–	–	–	3,749,075
Loan capital	–	1,588,843	2,991,069	–	–	4,579,912
Other financial liabilities	163,810	190,469	377,493	–	2,440,915	3,172,687
Total financial liabilities	153,492,609	19,831,307	10,905,491	–	3,043,639	187,273,046
Net position – total financial assets and liabilities	(6,190,959)	15,298,655	548,856	8,061,494	5,161,781	22,879,827

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

MARKET RISK (Continued)

Interest rate risk (Continued)

Interest rate sensitivity

The framework adopted by the Group to measure interest rate risk exposure arising from its banking book positions is consistent with the guidelines set out by the HKMA in its Supervisory Policy Manual ("SPM") on Interest Rate Risk in the Banking Book. Sensitivities of earnings or economic value of equity ("EVE") to interest rate changes by specific size of interest rate parallel shocks and key assumptions as required by SPM are summarised below:

	2020			
	HKD HK\$'000	USD HK\$'000	CNY HK\$'000	CNH HK\$'000
Size of interest rate parallel shocks (bps)	200	200	250	250
Impact on earnings over the next 12 months (parallel up) (Note)	(540,000)	(115,000)	(5,000)	(15,000)
Impact on EVE (parallel up) (Note)	–	–	1,030,000	–

	2019			
	HKD HK\$'000	USD HK\$'000	CNY HK\$'000	CNH HK\$'000
Size of interest rate parallel shocks (bps)	200	200	250	250
Impact on earnings over the next 12 months (parallel up) (Note)	(572,000)	(48,000)	(51,000)	(6,000)
Impact on EVE (parallel up) (Note)	–	–	553,000	–

Note: Positive impact means unfavourable to the Group.

The key assumptions are as follows:

- exclusion of spread components in the cash flows used in the computation or discount rate either for Δ EVE;
- determination of behavioural modelling in accordance with the Group's business regions;
- estimation of the prepayment rates of customer loans and the early withdrawal rates for time deposits, the Group adopted the model derived at the account level with using logistic regression with clustered standard errors. The fixed-rate retail loan and retail term deposit portfolios were assumed to follow a run-off mode, with no new originations or auto-renewal in the forecast; and
- estimation of behavioural maturity of HKD non-maturity deposits ("NMDs"), the Group adopted the run-off approach, which estimates the decay rate of the current and saving deposit respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)***MARKET RISK** *(Continued)**Price risk*

The Group is exposed to price risk arising from its listed investments in equity securities. Except for those classified as FVPL, the Group does not actively trade these investments. The sensitivity analysis below is determined based on 10% changes in the price of the underlying investments.

Price sensitivity

	2020		2019	
	Change in price		Change in price	
	+10%	-10%	+10%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit after tax	8	(8)	16	(16)
Other comprehensive income (after tax)	3,338	(3,338)	4,153	(4,153)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK

Liquidity risk is the risk that the Group may not be able to fund increases in assets or meet obligations as they fall due, without incurring unacceptable losses. Liquidity problems can have an adverse impact to the Group's earnings and capital and, in extreme circumstances, may even lead to the collapse of the Group which is otherwise solvent.

Management of liquidity risk

Principal objective

The principal objective of the Group's liquidity risk management framework is to maintain a conservative level of liquid funds on a daily basis so that the Group has sufficient cash flows to meet its current obligations when they fall due in the ordinary course of business, to make new loans and investments as opportunities arise and to satisfy statutory liquidity requirements. The Group has enhanced its liquidity risk management framework by conducting cash flow analysis to ensure that the Group has adequate liquidity and funding capacity to meet its normal business operations and to withstand a prolonged period of liquidity stress in accordance with the requirements set out in the Supervisory Policy Manual LM-2 "Sound Systems and Controls for Liquidity Risk Management" ("SPM LM-2"). This also provides a foundation to other risk management tools including stress-testing and contingency funding plan.

Organisation structure

The Group adopts a liquidity risk management model that incorporates both centralised and decentralised elements based on thorough consideration of the organisational structure and major business characteristics of the Group as well as regulatory policies. The Head Office is ultimately responsible for managing the Group's overall liquidity risk, while the branches outside Hong Kong in Macau and Mainland China manage their own liquidity risk pursuant to the Head Office's policies within authorised scope through submission of monthly management accounts and daily cash flow positions to Head Office.

The management of the Group's liquidity risk is governed by the Liquidity Risk Management Policy which is reviewed by the ALCO and approved by the Executive Committee ("EXCO"). Key features of liquidity position, appropriate limits and triggers are set in the Liquidity Risk Management Policy. The ALCO is delegated by the EXCO to oversee the Group's day-to-day liquidity risk management, responsible for monitoring and controlling of the Group's liquidity position through on-going and periodic review of different liquidity metrics, including but not limited to the statutory liquidity maintenance and core funding ratios, the maturity mismatch of assets and liabilities, loan-to-deposit ratios, normal and stressed cash flow projections and inter-bank transactions. The Group uses various management information systems developed in-house to prepare and compile regular management reports to facilitate the liquidity risk management duties.

Treasury Division is responsible for the Group's intraday and day-to-day management of cash flow and liquidity positions while Finance and Capital Management Division is responsible for the identification, measurement and monitoring of liquidity risk exposures, conducting liquidity cost analysis and stress-testing, handling regulatory reporting in relation to liquidity risk and coordinating the regular forecast of loans and deposits, liquidity maintenance ratio, liquidity and funding statements. Depending on the level of severity, any breach in policies will be reported by these units to the ALCO and/or the EXCO, whilst seeking their advices or instructions on mitigating measures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

LIQUIDITY RISK (Continued)

Management of liquidity risk (Continued)

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the contractual maturities of the undiscounted financial liabilities including interest that will accrue, with reference to their respective contractual interest rate, and for those variable rate instruments, by using the appropriate prevailing market rates as at the end of the reporting period as stated in their contracts.

	Repayable		Repayable	Repayable	Repayable		Undated	Total
	Repayable on demand	Repayable within 1 month	after 1 month but within 3 months	after 3 months but within 1 year	after 1 year but within 5 years	Repayable after 5 years		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Liabilities adjusted with interest payable								
At 31 December 2020								
Deposits and balances of banks	663,633	3,458,008	2,239,456	1,894,008	-	-	-	8,255,105
Financial assets sold under repurchase agreements	-	778,562	7,983	-	-	-	-	786,545
Deposits from customers	65,386,798	52,143,525	37,174,754	19,065,902	10,382,668	-	-	184,153,647
Certificates of deposit	-	-	130,330	2,439,763	-	-	-	2,570,093
Loan capital	-	-	-	115,591	462,365	3,213,412	-	3,791,368
Other financial liabilities	1,145,344	272,553	539,469	452,032	341,056	73,003	1,161,604	3,985,061
Total undiscounted financial liabilities	67,195,775	56,652,648	40,091,992	23,967,296	11,186,089	3,286,415	1,161,604	203,541,819
Liabilities adjusted with interest payable								
At 31 December 2019								
Deposits and balances of banks	38,949	2,816,293	1,588,880	2,533,176	-	-	-	6,977,298
Financial assets sold under repurchase agreements	-	1,096,010	3,168,646	-	-	-	-	4,264,656
Deposits from customers	57,789,080	46,003,212	38,932,309	13,772,463	7,506,369	-	-	164,003,433
Certificates of deposit	-	-	2,400,846	1,401,757	-	-	-	3,802,603
Loan capital	-	-	-	1,799,344	462,365	3,329,003	-	5,590,712
Other financial liabilities	817,609	704,228	635,211	537,159	395,330	966	837,639	3,928,142
Total undiscounted financial liabilities	58,645,638	50,619,743	46,725,892	20,043,899	8,364,064	3,329,969	837,639	188,566,844

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

LIQUIDITY RISK (Continued)

Management of liquidity risk (Continued)

The following tables detail the Group's expected maturity for its derivative financial instruments. The tables have been drawn up based on the undiscounted net cash inflows (outflows) on the derivative financial instruments that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period.

	Less than		3 months		Over	
	1 month HK\$'000	1 – 3 months HK\$'000	to 1 year HK\$'000	1 – 5 years HK\$'000	5 years HK\$'000	Total HK\$'000
At 31 December 2020						
Derivatives settled net						
Interest rate contracts						
– Outflows	(8,965)	(94,549)	(495,843)	(1,600,643)	(435,173)	(2,635,173)
Derivatives settled gross						
Exchange rate contracts						
– Inflows	96,952,031	9,044,304	34,643,857	7,904,734	–	148,544,926
– Outflows	(96,940,507)	(9,047,747)	(34,621,727)	(7,914,384)	–	(148,524,365)
	11,524	(3,443)	22,130	(9,650)	–	20,561
At 31 December 2019						
Derivatives settled net						
Interest rate contracts						
– Outflows	–	–	(126,716)	(673,069)	(331,688)	(1,131,473)
Derivatives settled gross						
Exchange rate contracts						
– Inflows	25,366,408	74,975,450	70,729,579	6,180,528	–	177,251,965
– Outflows	(25,367,225)	(74,996,240)	(70,694,688)	(6,173,082)	–	(177,231,235)
	(817)	(20,790)	34,891	7,446	–	20,730

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)***LIQUIDITY RISK** *(Continued)**Management of liquidity risk (Continued)*

The dates of the contractual amounts of the Group's commitments and contingencies unrecorded in the statements of financial position that commit them to extending credit to customers and other facilities and financial guarantees are set out in note 37 to the consolidated financial statements and summarised in the table below:

	As at 31 December 2020 No later than 1 year HK\$'000	As at 31 December 2019 No later than 1 year HK\$'000
Direct credit substitutes	2,686,382	469,730
Trade-related contingencies	659,450	6,231,424
Undrawn formal standby facilities, credit lines and other commitments excluding those that are unconditionally cancellable without prior notice	11,002,248	9,897,413
	14,348,080	16,598,567

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Sources of liquidity risk

Liquidity risk can arise from both sides of the on-balance sheet and the off-balance sheet transactions. The major sources of liquidity risk include the maturity mismatches between the Group's assets and liabilities, withdrawal of customers' deposits and drawing of loans by customers. The Group manages liquidity risk by conducting cash flow analysis arising from on-and off-balance sheet items over an appropriate set of time horizons under normal business conditions and stress scenarios on a daily and monthly basis respectively to identify liquidity needs.

The Group's liquidity risk management process also includes the use of liquidity metrics against which statutory and internal limits are set and observed, the design and implementation of early warning indicators of which exceptions should be reported, and the allocation of liquidity costs. The last line of defense is to ensure that the Group has funding capacity supported by good reputation and liquidity cushion.

The Group also measures and manages liquidity risk arising from off-balance sheet exposures and contingent funding obligations such as loan commitments, derivatives and contingent liabilities. Such exposures are subject to the limits set and are also factored into the Group's stress-testing. The Group does not engage in any transactions which give rise to the need of providing liquidity support.

Funding strategies

The Group has strong capital base and stable customer deposits which form its main funding sources. Funding diversification is achieved internally through surveillance on large depositors and externally by maintaining its access to the interbank market, issuance of certificates of deposit and through financial assets sold under repurchase agreements and swap markets. All of these are parts of the Group's funding strategy.

The Group's branches outside Hong Kong are mainly self-funded through acquiring customer deposits and maintaining its access to the local interbank market. Nevertheless, it is the Group's policy that the Head Office is to support their liquidity needs when necessary. The funding to branches outside Hong Kong is subject to pre-set limits so as to encourage them to source their own funding in the local markets.

Liquidity cushion

In order to address and mitigate market liquidity risk, the Group maintains a sufficient portfolio of liquidity cushion which can be sold or used as collateral to provide liquidity even under periods of stress. The Group deploys funds in good credit quality debt securities with deep and liquid markets to ensure short term funding requirements can be covered within prudent limits. The Group periodically obtains liquidity from a proportion of the liquidity cushion through secured borrowing to test the usability of these assets. Liquidity sources and contingency funding plan are maintained to identify early warning indicators of stress conditions, provide strategic liquidity to meet unexpected and material cash outflows and to describe remedial actions to be taken under crisis scenarios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Liquidity cushion (Continued)

The eligible assets as liquidity cushion are mainly debt securities which are unencumbered, low risk, simple structure and traded in active and sizable market with low volatility. Structured products and concentrated positions are not allowed in order to ensure the ease and certainty of valuation. For the liquidity cushion as a whole, there is an appropriate mix of eligible assets to ensure a high degree of diversification by limiting the exposure to each single credit. The liquidity cushion also contains a significant proportion of government issued debt securities with 0% risk-weight for credit risk to minimise risks.

The size of the liquidity cushion should be sufficient for the Group to meet its intraday payment obligations and to cover the day-to-day liquidity needs under both normal and stress market conditions. The Group is not subject to particular collateral arrangements or requirements in contracts if there is a credit rating downgrade of entities within the Group.

The table below shows the estimated value (nominal amount before assumed haircuts) of the liquid assets used for the purposes of liquidity cushion.

Internal Categorisation	Basic Criteria	At 31 December 2020	At 31 December 2019
		HK\$'000	HK\$'000
Tier 1	Debt Securities issued by sovereigns, central banks or public sector entities with 0% risk-weight	5,677,868	16,844,820
Tier 2	Other investment grade debt securities	25,325,489	24,819,834

The Group's liquidity framework defines the liquidity cushion that can be assessed locally as high quality and realisable within one month. ALCO approves the size and composition of the liquidity cushion in accordance with the Liquidity Risk Management Policy.

Details of liquidity cushion are set out in the Liquidity Risk Management Policy which is reviewed by the ALCO and approved by the EXCO, and reported to the Board on an annual basis.

Stress-testing

The Group supplements the analysis of various types of risks with stress-testing. Stress-testing is a risk management tool for estimating risk exposures under stress conditions arising from extreme but plausible market or macroeconomic movements. Finance and Capital Management Division performs stress-testing on a monthly basis in accordance with the principles stated in the supervisory policy manual LM-2 and IC-5, and when necessary, may carry out special stress-testing in accordance with regulatory requirements and changes in the external operating environment. The stress-test results are regularly reviewed by the ALCO and the RMC, approved by the EXCO and reported to the Board.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK *(Continued)*

Stress-testing (Continued)

In performing the stress-testing on liquidity risk, the Group adopts the cash flow analysis which has taken into consideration of various macroscopic and microscopic factors in line with the characteristics and complexity of the Group's businesses. Both on- and off-balance sheet items with applicable hypothetical, historical and behavioural assumptions are considered to address both funding and market liquidity risks. Three stress scenarios, namely the institution-specific crisis, the general market crisis and the combined crisis are adopted with minimum survival periods defined according to SPM LM-2. With reference to the stress-testing results, the Group identifies potential vulnerabilities on its liquidity position under stress market conditions and formulates the contingency funding plan that sets out remedial actions for dealing with liquidity problems (e.g. conducting repo transactions or liquidation of assets held for liquidity risk management purpose).

The Group also performs reverse stress-testing in accordance with SPM IC-5. Reverse stress-testing is an iterative process assisting the Group to identify and assess extreme stress scenarios that can cause business failures (e.g. breaches of regulatory capital ratios, illiquidity and severe negative profitability). It is a process of working backwards from the event causing business failures and involves a mix of qualitative and quantitative analyses. The Group uses results of reverse stress-testing to strengthen resilience to liquidity stress and serve as early-warning triggers for the formulation of management actions and contingency funding plan to mitigate potential stresses and vulnerabilities which the Group might face.

Contingency funding plan

The Group distinguishes between different stages of a liquidity crisis that the Group may face, namely: Funding Stress, Liquidity Drain, Bank Run and recovery zone. The escalation is to reflect the worsening liquidity conditions. This includes the liquidity shortfalls estimated from stress- testing performed.

The Group's contingency funding plan, as stipulated in the Liquidity Risk Management Policy and the Procedures Manual for Contingency Funding Plan, details the Group's immediate action in order to react to emergency. It covers three major components: (1) Predefined conditions to activate the plan; (2) The Group's strategy and potential funding options to deal with different crisis scenarios; and (3) Practical action plans and procedures with clear responsibilities of management and its supporting teams. The ALCO would be called during liquidity crisis to ensure business continuity of the Group.

The Liquidity Risk Management Policy and the Procedures Manual for Contingency Funding Plan are reviewed and updated at least annually to cope with required changes and improvements.

To ensure the contingency funding plan remains practical and effective, drill test is conducted by the Group on an annual basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

LIQUIDITY RISK (Continued)

Analysis of assets and liabilities by remaining maturity

The maturity analysis of financial assets and liabilities shown on the statements of financial position, based on the remaining period at the end of the reporting period to the contractual maturity date is shown below:

	Repayable		Repayable	Repayable	Repayable	Undated	Total
	on demand	within 1 month	after 1 month but within 3 months	after 3 months but within 1 year	after 1 year but within 5 years		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	124,144
Financial assets measured at FVOCI	–	3,633,151	2,956,528	7,100,505	23,761,252	12,661,841	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	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	–	8,798,066
Total financial assets	24,434,091	19,160,615	19,995,239	45,901,806	83,923,304	34,928,219	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
Total financial liabilities	66,676,437	57,245,045	39,776,484	23,846,559	11,818,140	4,322,134	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	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

LIQUIDITY RISK (Continued)

Analysis of assets and liabilities by remaining maturity (Continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT (Continued)

FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	Carrying amount		Fair value	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Financial assets				
– measured at amortised cost	2,534,679	480,633	2,550,105	487,531
Financial liabilities				
– Loan capital	3,033,178	4,579,912	2,956,919	4,552,924

The following tables give information about financial assets and financial liabilities which are not measured at fair values at the end of each reporting period, but for which the fair values are disclosed.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
At 31 December 2020				
Financial assets measured at amortised cost	2,550,105	–	–	2,550,105
Loan capital	–	2,965,919	–	2,965,919
At 31 December 2019				
Financial assets measured at amortised cost	–	487,531	–	487,531
Loan capital	–	4,552,924	–	4,552,924

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

Please refer to next section for the definition of fair value hierarchy.

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

The fair values of debt securities classified as FVOCI, debt securities classified as amortised cost 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 values of foreign currency forward contracts are 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 values 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.

There were no changes in the Group's valuation techniques during the year.

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENTS OF FINANCIAL POSITION

Some of the Group's financial assets and financial liabilities are measured at fair values at the end of each reporting period. The following table and paragraph give information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. FINANCIAL RISK MANAGEMENT (Continued)

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENTS OF FINANCIAL POSITION (Continued)

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

There were no transfers between Levels 1, 2 and 3 during 2020 and 2019.

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for the year ended 31 December 2020

7. FINANCIAL RISK MANAGEMENT *(Continued)*

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENTS OF FINANCIAL POSITION *(Continued)*

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets measured at FVOCI HK\$'000
Balance at 1 January 2019	40,954
Exchange difference	(1,070)
Balance at 31 December 2019 and 1 January 2020	39,884
Exchange difference	1,796
Balance at 31 December 2020	41,680

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% (2019: 0.02%), of total assets recorded at fair values, are based on estimates and recorded as Level 3 investments. If the carrying amount of these investments would be increased (decreased) by 5%, the impact on other comprehensive income would be increased (decreased) by HK\$2,084,000 (2019: HK\$1,994,200) respectively.

Of the total net gains or losses for the year included in other comprehensive income, there was nil (2019: nil) related to financial assets measured at FVOCI held at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statements 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 statements 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.

The Group's derivative transactions that are not transacted on an exchange are entered into under ISDA Master Agreements. The Group's sale and repurchase transactions are covered by GMRA with netting terms similar to those of ISDA Master Agreements. The ISDA Master Agreements and GMRA do not meet the criteria for offsetting in the statements of financial position. However, they create a right of set off of different contracts that is enforceable only following an event of default, insolvency and bankruptcy of the Group or the counterparties. In such circumstances, all outstanding contracts under the agreements are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all contracts.

In addition, the Group received and pledged 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 agreement of Continuous Net Settlement made between the Group and Hong Kong Securities Clearing Company Limited ("HKSCC"), money obligations receivable and payable with HKSCC on the same settlement date are settled on net basis.

The Group has a legally enforceable right to set off the trades receivable and payable with brokerage clients that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

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for the year ended 31 December 2020

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS (Continued)

Types of financial assets	Gross amounts of recognised financial liabilities offset in the consolidated statement of financial assets	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amounts	
	Gross amounts of recognised financial assets	Gross amounts of recognised financial assets	Financial instruments	Cash/financial collateral received		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 31 December 2020						
Derivatives – interest rate swaps	88,487	–	88,487	(83,471)	(238,134)	(233,118)
Derivatives – foreign currency forward contracts	1,156,634	–	1,156,634	(635,236)	(332,385)	189,013
FVOCI debt securities	8,804	–	8,804	(7,978)	–	826
Amounts due from HKSCC and brokerage clients	728,189	(188,122)	540,067	–	–	540,067
Total	1,982,114	(188,122)	1,793,992	(726,685)	(570,519)	496,788

Types of financial liabilities	Gross amounts of recognised financial assets offset in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amounts	
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial liabilities	Financial instruments	Cash/financial collateral pledged		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 31 December 2020						
Derivatives – interest rate swaps	1,271,548	–	1,271,548	(83,471)	(1,208,042)	(19,965)
Derivatives – foreign currency forward contracts	1,262,204	–	1,262,204	(635,236)	(820,321)	(193,353)
Financial assets sold under repurchase agreements	7,978	–	7,978	(7,978)	–	–
Amounts due to HKSCC and brokerage clients	562,921	(188,122)	374,799	–	–	374,799
Total	3,104,651	(188,122)	2,916,529	(726,685)	(2,028,363)	161,481

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for the year ended 31 December 2020

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS (Continued)

Types of financial assets	Gross amounts of recognised financial liabilities offset	Net amounts of financial assets presented	Related amounts not offset in the consolidated statement of financial position		Net amounts HK\$'000	
	Gross amounts of recognised financial assets HK\$'000	in the consolidated statement of financial position HK\$'000	in the consolidated statement of financial position HK\$'000	Financial instruments HK\$'000		Cash/financial collateral received HK\$'000 <i>(Note)</i>
At 31 December 2019						
Derivatives – interest rate swaps	61,251	–	61,251	(58,136)	(7,099)	(3,984)
Derivatives – foreign currency forward contracts	546,171	–	546,171	(411,129)	(97,304)	37,738
FVOCI debt securities	3,227,556	–	3,227,556	(3,142,270)	(2,661)	82,625
Amounts due from HKSCC and brokerage clients	388,491	(58,563)	329,928	–	–	329,928
Total	4,223,469	(58,563)	4,164,906	(3,611,535)	(107,064)	446,307

Types of financial liabilities	Gross amounts of recognised financial assets offset in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amounts HK\$'000	
	Gross amounts of recognised financial liabilities HK\$'000	in the consolidated statement of financial position HK\$'000	in the consolidated statement of financial position HK\$'000	Financial instruments HK\$'000		Cash/financial collateral pledged HK\$'000 <i>(Note)</i>
At 31 December 2019						
Derivatives – interest rate swaps	697,173	–	697,173	(58,136)	(704,677)	(65,640)
Derivatives – foreign currency forward contracts	510,466	–	510,466	(411,129)	(90,077)	9,260
Financial assets sold under repurchase agreements	3,142,270	–	3,142,270	(3,142,270)	(5,316)	(5,316)
Amounts due to HKSCC and brokerage clients	280,422	(58,563)	221,859	–	–	221,859
Total	4,630,331	(58,563)	4,571,768	(3,611,535)	(800,070)	160,163

Note: The cash and financial collateral received/pledged as at 31 December 2020 and 31 December 2019 represent in fair value.

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for the year ended 31 December 2020

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statements of financial position that are disclosed in the above tables are measured in the statements of financial position on the following basis:

- derivative financial assets and liabilities – fair value;
- financial assets sold under repurchase agreements – amortised cost;
- FVOCI debt securities – fair value;
- amortised cost debt securities – amortised cost; and
- amounts due from or due to HKSCC and brokerage clients – amortised cost

The amounts which have been offset against the related recognised financial assets and financial liabilities in the Group's statements of financial position or subject to enforceable master netting arrangements or similar agreements are measured on the same basis as the recognised financial assets and financial liabilities except for FVOCI, which are measured on different basis as the related financial assets sold under repurchase agreements. The directors of the Group consider there are no material differences arising from the measuring differences.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

The tables below reconcile the net amounts of financial assets and financial liabilities presented in the Group's statements of financial position, as set out above, to the line items presented in the Group's statements of financial position.

Types of financial assets	2020 HK\$'000	2019 HK\$'000
Derivatives – interest rate swaps as stated above	88,487	61,251
Derivatives – foreign currency forward contracts as stated above	1,156,634	546,171
	1,245,121	607,422
Derivative financial assets not in scope of offsetting disclosures	400,329	98,508
Total derivative financial assets stated in note 19	<u>1,645,450</u>	<u>705,930</u>
FVOCI debt securities as stated above	8,804	3,227,556
FVOCI securities not in scope of offsetting disclosures	50,186,125	53,685,717
Total FVOCI securities stated in note 20	<u>50,194,929</u>	<u>56,913,273</u>
Amortised cost securities not in scope of offsetting disclosures	2,534,679	480,633
Total amortised cost securities stated in note 20	<u>2,534,679</u>	<u>480,633</u>
Amount due from HKSCC and brokerage clients as stated above	540,067	329,928
Other accounts not in scope of offsetting disclosures	8,366,346	6,303,476
Total other accounts stated in note 22	<u>8,906,413</u>	<u>6,633,404</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

Types of financial liabilities	2020 HK\$'000	2019 HK\$'000
Derivatives – interest rate swaps as stated above	1,271,548	697,173
Derivatives – foreign currency forward contracts as stated above	1,262,204	510,466
	2,533,752	1,207,639
Derivative financial liabilities not in scope of offsetting disclosures	1,241,730	695,312
Total derivative financial liabilities stated in note 19	3,775,482	1,902,951
Financial assets sold under repurchase agreements as stated above	7,978	3,142,270
Financial assets sold under repurchase agreements not in scope of offsetting disclosures	778,562	1,111,582
Financial assets sold under repurchase agreements stated in note 27	786,540	4,253,852
Amounts due to HKSCC and brokerage clients as stated above and included in other accounts	374,799	221,859
Total other accounts and accruals not in scope of offsetting disclosures	2,867,009	2,950,828
Total other accounts and accruals as stated in note 36	3,241,808	3,172,687

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

9. NET INTEREST INCOME

	2020 HK\$'000	2019 HK\$'000
Interest income		
Balances and placements with central bank and banks	365,630	747,883
Investments in securities	976,433	1,534,455
Loans and advances	4,223,679	4,209,689
	5,565,742	6,492,027
Interest expense		
Deposits and balances of banks	(197,286)	(357,261)
Deposits from customers	(2,199,871)	(2,352,002)
Financial assets sold under repurchase agreements	(49,147)	(156,936)
Certificates of deposit	(26,528)	(90,579)
Debt securities issued	–	(25,249)
Loan capital in issue	(149,300)	(230,391)
Lease liabilities	(17,058)	(19,749)
	(2,639,190)	(3,232,167)
Net interest income	2,926,552	3,259,860
Included within interest income		
Interest income on impaired loans and advances	10,792	9,925

Included within interest income and interest expense are HK\$5,565,742,000 (2019: HK\$6,492,027,000) and HK\$2,639,190,000 (2019: HK\$3,232,167,000) 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\$976,433,000 (2019: HK\$1,534,455,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

10. NET FEE AND COMMISSION INCOME

	2020 HK\$'000	2019 HK\$'000
Fee and commission income		
Securities dealings	163,532	103,279
Loans, overdrafts and guarantees	102,231	67,416
Trade finance	14,099	15,582
Credit card services	79,742	125,600
Agency services	122,798	92,231
Others	30,815	44,746
Total fee and commission income	513,217	448,854
Less: Fee and commission expenses	(78,890)	(123,197)
Net fee and commission income	434,327	325,657
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	191,011	213,192
– Fee expenses	(73,289)	(114,866)
	117,722	98,326

Comparative figures for certain credit card services related expenses of HK\$10,934,000 have been reclassified from other operating expenses to fee and commission expenses to conform to current year's presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

11. NET INCOME FROM TRADING AND INVESTMENTS

	2020 HK\$'000	2019 HK\$'000
Foreign exchange gains	177,450	176,393
Net gains on financial instruments at fair value through profit or loss	16,584	21,274
Net gains (losses) on fair value hedge:		
– Net gains on hedged items attributable to the hedged risk	1,604,785	1,051,943
– Net losses on hedging instruments	(1,597,782)	(1,049,216)
Net gains on disposal of FVOCI debt securities	57,416	40,899
	258,453	241,293

“Foreign exchange gains” includes net gains and losses from spots 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 FVOCI debt securities were included in the net income from trading and investments of the Group which form part of the business operation. This is in line with the current business model of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

12. OTHER OPERATING INCOME

	2020 HK\$'000	2019 HK\$'000
Dividend income		
– Listed investments	7,674	6,670
– Unlisted investments	4,295	6,097
	11,969	12,767
Gross rents from investment properties	9,038	8,855
Less: Outgoings	(355)	(452)
Net rental income	8,683	8,403
Net gain on disposal of financial instruments measured at amortised cost	110	–
Safe deposit box rentals	62,084	57,087
Net insurance income (<i>Note</i>)	19,639	20,995
Other banking services income	79,679	79,602
Gain on retirement benefit	499	–
Others	6,722	5,607
	<u>189,385</u>	<u>184,461</u>

Note: Details of net insurance income are as follows:

	2020 HK\$'000	2019 HK\$'000
Gross insurance premium income	37,733	39,378
Reinsurers' share of gross insurance premium income	(10,939)	(11,893)
	26,794	27,485
Decrease in gross outstanding claims	14,383	13,092
Gross claim paid	(21,794)	(15,352)
	(7,411)	(2,260)
Decrease in recoverable from reinsurance of outstanding claims	(4,830)	(8,488)
Reinsurance claims recoveries	2,343	609
	(2,487)	(7,879)
Net insurance commission income	2,743	3,649
Net insurance income	<u>19,639</u>	<u>20,995</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

13. OPERATING EXPENSES

	2020 HK\$'000	2019 HK\$'000
Auditor's remuneration		
– Audit services – current year	8,038	7,299
– Audit services – under provision in prior year	380	–
– Non-audit services	1,492	1,100
Total auditor's remuneration	9,910	8,399
Staff costs (including directors' emoluments)		
– Salaries and other costs	1,062,593	1,019,593
– Retirement benefits scheme contributions	51,393	51,027
– Equity settled share-based payment	6,023	–
– Government grant – Employment Support Scheme (Note 1)	(39,015)	–
– Capitalised to intangible assets	(49,464)	(50,424)
Total staff costs	1,031,530	1,020,196
Depreciation		
– Property and equipment	80,433	71,670
– Right-of-use assets	202,873	173,869
– Government grants (Note 2)	(4,534)	(1,535)
	278,772	244,004
Amortisation of intangible assets	4,492	4,044
Premises and equipment expenses, excluding depreciation		
– Rentals and rates for premises	7,772	7,105
– Expenses relating to short-term leases	1,709	23,609
– Expenses relating to leases of low-value assets	50	556
– Capitalised to intangible assets	(2,739)	(2,898)
– Others	11,507	14,180
	18,299	42,552
Other operating expenses	319,792	306,750
– Capitalised to intangible assets	(1,491)	(1,516)
	318,301	305,234
	1,661,304	1,624,429

Comparative figures for certain credit card services related expenses of HK\$10,934,000 have been reclassified from other operating expenses to fee and commission expenses and certain non-salary staff related expenses of HK\$52,683,000 included in other operating expenses have been reclassified to salaries and other costs to conform to current year's presentation.

Note 1: In 2020, the Group successfully applied for funding support from the Employment Support Scheme ("ESS") under the Anti-epidemic Fund, set up by the Hong Kong SAR Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the ESS, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

Note 2: Government grants were received by the Group from the Government of the People's Republic of China for the office rental in Shenzhen. There are no unfulfilled conditions or contingencies relating to these grants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

14. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	2020 HK\$'000	2019 HK\$'000
Loans and advances to customers	362,234	96,830
Investments in securities	39,998	34,254
Loan commitments and financial guarantee	18,125	1,953
Short-term funds and placement with banks	1,646	4,844
	422,003	137,881

15. TAXATION

	2020 HK\$'000	2019 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax		
– Current year	173,111	242,310
– Under provision in prior years	6,464	23,216
Overseas taxation		
– Current year	82,186	70,713
– Under (over) provision in prior years	28	(377)
<i>Deferred tax (Note 33)</i>		
– Current year	14,999	44,873
	276,788	380,735

Hong Kong profits tax is calculated at 16.5% (2019 : 16.5%) of the estimated assessable profit for the year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

15. TAXATION (Continued)

The tax charge for the year can be reconciled to the Group's profit before taxation per the consolidated income statement as follows:

	2020 HK\$'000	2019 HK\$'000
Profit before taxation	1,756,766	2,281,377
Tax at the domestic income tax rate of 16.5% (2019: 16.5%)	289,866	376,427
Tax effect of share of profits of associates	(6,968)	(6,137)
Tax effect of expenses not deductible for tax purpose	10,594	41,980
Tax effect of income not taxable for tax purpose	(61,425)	(45,948)
Under provision in prior years	6,492	22,839
Effect of different tax rates of subsidiaries and branches operating in other jurisdictions	25,446	14,426
Others	12,783	(22,852)
Tax charge for the year	276,788	380,735

16. DIVIDENDS

	2020 HK\$'000	2019 HK\$'000
Dividends recognised as distribution to ordinary shareholders during the year:		
2020 Interim – HK\$0.11 (2019: Interim – HK\$0.17) per share	106,978	165,329
2019 Final – HK\$0.41 (2018: Final – HK\$0.41) per share	398,736	398,736
	505,714	564,065

The final dividend of HK\$0.23 per share, totalling HK\$223,681,000, in respect of the current financial year (2019: HK\$0.41 per share, totalling HK\$398,736,000) has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting of the Bank.

At the Board meeting on 28 August 2020, the Board declared a total amount of interim dividend of HK\$106,978,000 (2019: HK\$165,329,000) at a rate of HK\$0.11 (2019: HK\$0.17) per share. The interim dividend was paid on 8 October 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

17. 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\$1,479,978,000 (2019: HK\$1,900,642,000) with deduction of distribution payment for additional equity instruments of HK\$177,116,000 (2019: HK\$153,015,000) on 972,526,000 (2019: 972,526,000) weighted average ordinary shares in issue during the year.

As at 31 December 2020 and 31 December 2019, there was no potential dilutive instrument in issue.

18. CASH AND SHORT-TERM FUNDS

	2020 HK\$'000	2019 HK\$'000
Cash and balances with central bank and banks	17,202,817	5,703,209
Money at call and short notice	4,597,826	14,701,296
	<u>21,800,643</u>	<u>20,404,505</u>

Included in the "Cash and balances with central bank and banks" are surplus reserve deposits placed with People's Bank of China by the Mainland branches of HK\$304,420,000 (2019: HK\$724,351,000).

19. DERIVATIVE FINANCIAL INSTRUMENTS

	2020			2019		
	Notional amount HK\$'000	Fair value		Notional amount HK\$'000	Fair value	
		Assets HK\$'000	Liabilities HK\$'000		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading						
– Foreign currency forward contracts and swaps	150,099,831	1,441,027	1,424,876	186,312,939	606,575	603,091
– Foreign currency options	3,479,630	16,436	16,423	3,264,209	25,849	25,845
– Interest rate swaps	51,333,581	101,658	98,269	43,402,994	42,573	41,694
– Futures	22,022,296	–	198	358,179	36	26
Derivatives designated as hedging instruments						
– Interest rate swaps	32,243,316	86,329	2,235,716	35,920,843	30,897	1,232,295
		<u>1,645,450</u>	<u>3,775,482</u>		<u>705,930</u>	<u>1,902,951</u>

As at 31 December 2020 and 31 December 2019, all foreign currency forward contracts have settlement dates within 5 years (2019: 3 years) from the end of the reporting period.

The remaining maturity of interest rate swaps held for trading is within 10 years (2019: within 9 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

19. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The credit risk-weighted amounts of derivative exposures calculated based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance are as follows:

	2020			2019		
	Notional amount	Replacement cost	Credit risk-weighted amount	Notional amount	Replacement cost	Credit risk-weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts	153,579,461	1,457,463	1,000,258	189,577,148	632,424	1,043,312
Interest rate contracts	105,583,690	187,987	111,735	79,682,016	73,506	127,712
Others	15,503	–	775	–	–	–
		<u>1,645,450</u>	<u>1,112,768</u>		<u>705,930</u>	<u>1,171,024</u>

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

The derivative financial instruments including exchange rate contracts and interest rate contracts have been recognised in the statements of financial position at fair values.

The fair values of the derivative financial instruments do not take into account the effect of any bilateral netting agreements.

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for the year ended 31 December 2020

19. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

FAIR VALUE HEDGE OF FIXED-RATE BONDS

The Group designates certain interest rate swaps as fair value hedges of FVOCI and amortised cost debt securities with carrying amount of HK\$26,305,423,000 (2019: HK\$31,648,912,000) and HK\$1,216,494,000 (2019: nil) as at 31 December 2020, respectively. The purpose is to minimise its exposure to fair value changes of its fixed-rate bonds by swapping these fixed-rate bonds from fixed rates to floating rates. The interest rate swaps and the corresponding fixed-rate bonds have the same terms. The management of the Group considers that the interest rate swaps are highly effective hedging instruments. The remaining maturity of these interest rate swaps and debt securities ranged from 1 month to 9 years (2019: 2 months to 9 years).

During the years ended 31 December 2020 and 31 December 2019, the above fair value hedges were effective in hedging the fair value exposures to interest rate movements and as a result, both the gains in fair value of the bonds of HK\$1,654,056,000 (2019: gains of HK\$1,145,420,000) and losses in fair value of the interest rate swaps of HK\$1,650,149,000 (2019: losses of HK\$1,143,778,000) were included in the consolidated income statement.

FAIR VALUE HEDGE OF SUBORDINATED NOTE ISSUED

The Group designates an interest rate swap as fair value hedge of the interest rate movement of the US\$383 million (2019: US\$587 million) subordinated note issued (see note 32). The purpose is to minimise its exposure to fair value changes of its fixed-rate note by swapping fixed-rate note from fixed rate to floating rate. The interest rate swap and the hedged subordinated note have the same terms and the management of the Group considers that the interest rate swap is a highly effective hedging instrument.

The hedge was effective in hedging the fair value exposure to interest rate movements and as a result, both the decrease in fair value of the note of HK\$49,271,000 (2019: decrease in fair value of HK\$93,477,000) and gains in fair value of the interest rate swap of HK\$52,367,000 (2019: gains of HK\$94,562,000) were included in the consolidated income statement.

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20. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss HK\$'000	Financial assets at FVOCI HK\$'000	Financial assets at amortised cost HK\$'000	Total HK\$'000
2020				
Equity securities:				
Listed in Hong Kong	91	37,826	–	37,917
Listed overseas	–	2,146	–	2,146
Unlisted	–	41,680	–	41,680
	<u>91</u>	<u>81,652</u>	<u>–</u>	<u>81,743</u>
Debt Securities:				
Certificates of deposits – unlisted	–	6,378,797	–	6,378,797
Other debt securities – unlisted	124,053	43,734,480	2,534,679	46,393,212
	<u>124,053</u>	<u>50,113,277</u>	<u>2,534,679</u>	<u>52,772,009</u>
Total:				
Listed in Hong Kong	91	37,826	–	37,917
Listed overseas	–	2,146	–	2,146
Unlisted	124,053	50,154,957	2,534,679	52,813,689
	<u>124,144</u>	<u>50,194,929</u>	<u>2,534,679</u>	<u>52,853,752</u>
As analysed by issuing entities:				
Central governments and central banks	–	9,914,030	475,743	10,389,773
Banks and other financial institutions	122,702	21,233,068	630,603	21,986,373
Corporate entities	1,442	19,047,831	1,428,333	20,477,606
	<u>124,144</u>	<u>50,194,929</u>	<u>2,534,679</u>	<u>52,853,752</u>

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for the year ended 31 December 2020

20. INVESTMENTS IN SECURITIES *(Continued)*

	Financial assets at fair value through profit or loss HK\$'000	Financial assets at FVOCI HK\$'000	Financial assets at amortised cost HK\$'000	Total HK\$'000
2019				
Equity securities:				
Listed in Hong Kong	193	47,074	–	47,267
Listed overseas	–	2,662	–	2,662
	193	49,736	–	49,929
Unlisted	–	39,884	–	39,884
	193	89,620	–	89,813
Debt Securities:				
Certificates of deposits – unlisted	–	597,021	–	597,021
Other debt securities – unlisted	140,494	56,226,632	480,633	56,847,759
	140,494	56,823,653	480,633	57,444,780
Total:				
Listed in Hong Kong	193	47,074	–	47,267
Listed overseas	–	2,662	–	2,662
Unlisted	140,494	56,863,537	480,633	57,484,664
	140,687	56,913,273	480,633	57,534,593
As analysed by issuing entities:				
Central governments and central banks	140,494	20,945,295	459,265	21,545,054
Banks and other financial institutions	–	16,109,168	19,368	16,128,536
Corporate entities	193	19,858,810	2,000	19,861,003
	140,687	56,913,273	480,633	57,534,593

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20. INVESTMENTS IN SECURITIES (Continued)

INVESTMENTS IN EQUITY INSTRUMENTS DESIGNATED AT FVOCI

The Group has designated at FVOCI investments in a portfolio of equity securities as follows:

	Instruments held as at 31 December 2020		Instruments disposed during the year ended 31 December 2020		
	Fair value HK\$000	Dividend recognised HK\$000	Fair value	Cumulative	Dividend
			on date of disposal HK\$000	gains on disposal HK\$000	recognised HK\$000
Type of equity instrument					
– business facilitation	41,405	4,295	–	–	–
– other	40,247	7,674	–	–	–
	<u>81,652</u>	<u>11,969</u>	<u>–</u>	<u>–</u>	<u>–</u>

	Instruments held as at 31 December 2019		Instruments disposed during the year ended 31 December 2019		
	Fair value HK\$000	Dividend recognised HK\$000	Fair value	Cumulative	Dividend
			on date of disposal HK\$000	gains on disposal HK\$000	recognised HK\$000
Type of equity instrument					
– business facilitation	39,607	6,097	–	–	–
– other	50,013	6,670	9,724	113	69
	<u>89,620</u>	<u>12,767</u>	<u>9,724</u>	<u>113</u>	<u>69</u>

The Group chose this presentation alternative because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

21. TRANSFER OF FINANCIAL ASSETS

The following were the Group's financial assets classified as FVOCI as at 31 December 2020 and 31 December 2019 that were transferred to an entity with terms to repurchase these debt securities at agreed dates and prices. As the Group has retained substantially all the risks and rewards relating to these financial assets, the full carrying amount of these financial assets continued to be recognised. The cash received on the transfer was reported as liabilities under "Financial assets sold under repurchase agreements" (see note 27). The transferred financial assets serve as collateral to secure these liabilities. During the covered period, the legal titles of the financial assets are transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These financial assets are measured at fair value in the consolidated statement of financial position.

	2020 HK\$'000	2019 HK\$'000
Financial assets measured at FVOCI		
Carrying amount of transferred assets	817,681	4,467,402
Carrying amount of associated liabilities (Note 27)	786,540	4,253,852

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22. ADVANCES AND OTHER ACCOUNTS

	2020 HK\$'000	2019 HK\$'000
Advances to customers		
Bills receivable	1,167,499	618,617
Trade bills measured at		
– amortised cost	386,957	2,490,856
– FVOCI	5,176,771	–
	5,563,728	2,490,856
Other advances to customers	135,650,390	114,969,441
	142,381,617	118,078,914
Interest receivable	770,942	1,052,563
Impairment allowances		
– Stage 1	(428,285)	(382,053)
– Stage 2	(108,518)	(43,710)
– Stage 3	(342,486)	(193,597)
	(879,289)	(619,360)
	142,273,270	118,512,117
Advances to banks	1,103,409	837,275
Other accounts		
– Deposit placed as mandatory reserve fund (Note 1)	4,854,012	4,055,287
– Initial and variation margin (Note 2)	1,473,594	1,109,486
– Others	2,578,807	1,468,631
	8,906,413	6,633,404
	152,283,092	125,982,796

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.

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22. ADVANCES AND OTHER ACCOUNTS *(Continued)*

Details of the impaired loans are as follows:

	2020 HK\$'000	2019 HK\$'000
Gross impaired loans	922,476	397,601
Less: Impairment allowances under Stage 3	(342,486)	(193,597)
Net impaired loans	579,990	204,004
Gross impaired loans as a percentage of gross advances to customers	0.65%	0.34%
Market value of collateral pledged	341,551	256,491

Details of the non-performing loans are as follows:

	2020 HK\$'000	2019 HK\$'000
Gross non-performing loans <i>(Note)</i>	919,596	395,458
Less: Impairment allowances under Stage 3	(342,486)	(193,558)
Net non-performing loans	577,110	201,900
Gross non-performing loans as a percentage of gross advances to customers	0.65%	0.33%
Market value of collateral pledged	322,203	241,548

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

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23. SUBSIDIARIES

Name of company	Place of incorporation and kind of legal entity	Issued share capital	Percentage of issued share capital held by the Group	Principal activities and place of operation
Card Alliance Company Limited	Hong Kong, limited liability company	HK\$ 18,000,000	100%	Credit card management in Hong Kong
Chong Hing Commodities and Futures Limited	Hong Kong, limited liability company	HK\$ 5,000,000	100%	Investment holding and commodities and futures broking in Hong Kong
Chong Hing Finance Limited	Hong Kong, limited liability company	HK\$ 25,000,000	100%	Deposit-taking and lending in Hong Kong
Chong Hing Information Technology Limited	Hong Kong, limited liability company	HK\$ 100,000	100%	Provision of electronic data processing services in Hong Kong
Chong Hing Insurance Brokers Limited	Hong Kong, limited liability company	HK\$ 4,000,000	100%	Insurance broking in Hong Kong
Chong Hing Insurance Company Limited	Hong Kong, limited liability company	HK\$ 85,000,000	100%	Insurance underwriting in Hong Kong
Chong Hing (Management) Limited	Hong Kong, limited liability company	HK\$ 100,000	100%	Provision of management services in Hong Kong
Chong Hing (Nominees) Limited	Hong Kong, limited liability company	HK\$ 100,000	100%	Provision of nominee services in Hong Kong
Chong Hing Securities Limited	Hong Kong, limited liability company	HK\$ 10,000,000	100%	Stockbroking in Hong Kong
Gallbraith Limited	Hong Kong, limited liability company	HK\$ 16,550,000	100%	Property investment in Mainland China
Hero Marker Limited	Hong Kong, limited liability company	HK\$ 100,000	100%	Property investment in Hong Kong
Top Benefit Enterprise Limited	Hong Kong, limited liability company	HK\$ 100,000	100%	Property investment in Hong Kong

None of the subsidiaries had any debt security subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results of the year or form a substantial portion of the net assets of the Group. In the opinion of the directors, listing details of other subsidiaries would result in particulars of excessive length.

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24. INTERESTS IN ASSOCIATES

	2020 HK\$'000	2019 HK\$'000
Share of post-acquisition profits and other comprehensive income net of dividends received	399,553	377,244

The directors consider the Group has significant influence over these entities.

As at 31 December 2020 and 2019, the Group had interests in the following associates:

	Place of incorporation and operation	Class of share held	Ownership interest	Proportion of voting power	Nature of business
Bank Consortium Holding Limited	Hong Kong	Ordinary	13.3%	14.3%	Investment holding and provision of trustee, administration and custodian services for retirement schemes
BC Reinsurance Limited	Hong Kong	Ordinary	21.0%	21.0%	Reinsurance
Hong Kong Life Insurance Limited	Hong Kong	Ordinary	16.7%	16.7%	Life insurance underwriting

The Group is able to exercise significant influence over all of these entities because it has the power to appoint one out of six to one out of eight directors of these companies.

All of these associates are accounted for using the equity method in these consolidated financial statements.

The summarised financial information below represent the aggregate amount of the Group's share of its interests in associates which are not individually material:

	2020 HK\$'000	2019 HK\$'000
Other comprehensive income	6,180	18,233
Profit after tax	42,229	37,191
Total comprehensive income	48,409	55,424

There are no significant restrictions on the ability of the associates to transfer funds to the Group in the form of cash dividends, except for Hong Kong Life Insurance Limited ("HKLI") which has to maintain net assets of not less than 150% of the required margin of solvency which is determined in accordance with the Hong Kong Insurance Companies (Margin of Solvency) Regulations and which may trigger restrictions to fund transfer.

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25. INVESTMENT PROPERTIES

	2020	2019
	HK\$'000	HK\$'000
At 1 January	306,610	311,942
Net decrease in fair value recognised in the profit or loss	(10,300)	(4,431)
Exchange adjustments	3,203	(901)
At 31 December	<u>299,513</u>	<u>306,610</u>

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

Investment properties owned by the Group were revalued at 31 December 2020 by adopting the direct comparison approach (2019: direct comparison approach) and with reference to the recent transactions for similar premises by Vigers Appraisal and Consulting Limited (2019: Vigers Appraisal and Consulting Limited), independent professionally qualified valuers. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

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

One of the key inputs used in valuing the investment properties was the unit sale rate taking into account of time, location and individual factors such as size and levels of building, which ranged from HK\$3,270 to HK\$47,200 (2019: HK\$3,430 to HK\$49,000) per square feet. A decrease in the unit sale rate would result in decrease in fair value measurement of the investment properties by the same percentage decrease and vice versa.

In estimating the fair value of the Group's investment properties, the management of the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management of the Group engages third party qualified valuers to perform the valuation of the Group's investment properties. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 2 and Level 3 fair value measurement. The management of the Group will first consider and adopt Level 2 inputs where inputs can be derived from observable quoted prices in the active market. When Level 2 inputs are not available, the management of the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the directors of the Bank.

Information about the valuation techniques and inputs in determining the fair value of the Group's investment properties are disclosed above.

Investment properties are classified as Level 3 under fair value hierarchy as at 31 December 2020 and 31 December 2019. There were no transfers into or out of Level 3 during the year.

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for the year ended 31 December 2020

25. INVESTMENT PROPERTIES *(Continued)*

The carrying amount of investment properties of the Group comprises:

	2020 HK\$'000	2019 HK\$'000
Leasehold properties		
Held in Hong Kong on long-term lease (over 50 years unexpired)	156,600	163,100
Held in Hong Kong on medium-term lease (10 – 50 years unexpired)	90,500	94,300
Held outside Hong Kong on medium-term lease (10 – 50 years unexpired)	52,413	49,210
	299,513	306,610

LEASING ARRANGEMENTS

The Group leases out investment property under operating leases. Lease payments are usually increased after the end of current leases to reflect market rentals. None of the leases includes variable lease payments.

Undiscounted minimum lease payments receivable on leases of properties are as follows:

	2020 HK\$'000	2019 HK\$'000
Within 1 year	1,727	8,177
After 1 year but within 2 years	2,100	5,022
After 2 years but within 3 years	2,652	486
	6,479	13,685

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26. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Right-of- use assets HK\$'000	Equipment HK\$'000	Total HK\$'000
COST					
At 1 January 2020	345,225	112,415	770,250	894,247	2,122,137
Additions	–	–	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	345,225	112,687	926,152	919,695	2,303,759
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	106,751	41,420	376,742	683,628	1,208,541
CARRYING AMOUNTS					
At 31 December 2020	238,474	71,267	549,410	236,067	1,095,218
At 1 January 2020	246,308	73,820	596,382	207,741	1,124,251
COST					
At 1 January 2019	345,225	112,493	181,690	826,902	1,466,310
Additions	–	–	588,562	82,898	671,460
Disposals	–	–	–	(12,106)	(12,106)
Exchange adjustments	–	(78)	(2)	(3,447)	(3,527)
At 31 December 2019	345,225	112,415	770,250	894,247	2,122,137
ACCUMULATED DEPRECIATION					
At 1 January 2019	91,088	35,848	–	636,354	763,290
Depreciation	7,829	2,763	173,869	61,078	245,539
Eliminated on disposals	–	–	–	(9,005)	(9,005)
Exchange adjustments	–	(16)	(1)	(1,921)	(1,938)
At 31 December 2019	98,917	38,595	173,868	686,506	997,886
CARRYING AMOUNTS					
At 31 December 2019	246,308	73,820	596,382	207,741	1,124,251
At 1 January 2019	254,137	76,645	–	190,548	521,330

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26. PROPERTY AND EQUIPMENT *(Continued)*

The carrying amounts of leasehold land shown above comprise:

	2020 HK\$'000	2019 HK\$'000
Leasehold land in Hong Kong:		
Held on long-term lease (over 50 years unexpired)	27,990	28,292
Held on medium-term lease (10 – 50 years unexpired)	209,710	217,213
Leasehold land outside Hong Kong:		
Held on medium-term lease (10 – 50 years unexpired)	774	803
	<u>238,474</u>	<u>246,308</u>

The carrying amounts of buildings shown above comprise:

	2020 HK\$'000	2019 HK\$'000
Held in Hong Kong on long-term lease (over 50 years unexpired)	4,752	4,996
Held in Hong Kong on medium-term lease (10-50 years unexpired)	60,996	63,363
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	5,519	5,461
	<u>71,267</u>	<u>73,820</u>

27. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2020 HK\$'000	2019 HK\$'000
Analysed by collateral type:		
Debt securities classified as FVOCI (<i>Note 21</i>)	<u>786,540</u>	<u>4,253,852</u>

28. DEPOSITS FROM CUSTOMERS

	2020 HK\$'000	2019 HK\$'000
Demand deposits and current accounts	17,426,489	12,162,143
Savings deposits	50,703,560	42,599,569
Time, call and notice deposits	115,098,242	107,902,936
	<u>183,228,291</u>	<u>162,664,648</u>

29. CERTIFICATES OF DEPOSIT

	2020 HK\$'000	2019 HK\$'000
Certificates of deposit, measured at amortised cost	<u>2,551,530</u>	<u>3,749,075</u>

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30. LOAN CAPITAL

	2020 HK\$'000	2019 HK\$'000
Subordinated notes, at amortised cost with fair value hedge adjustments		
US\$204 million fixed rate subordinated note due 2020 (<i>Notes (a) & (c)</i>)	–	1,588,843
US\$383 million fixed rate subordinated note due 2027 (<i>Notes (b) & (c)</i>)	3,033,178	2,991,069
	3,033,178	4,579,912

Notes:

- (a) This represented a subordinated note qualifying as tier 2 capital under Basel II accord with face value of US\$225,000,000 issued on 5 November 2010 (the "Existing Notes"). If at any time on or after 1 January 2013, the note no longer fully qualifies as term subordinated debt for inclusion in Category II – Supplementary Capital of the Bank upon changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the note by serving the "Change in Status Notice" to the noteholders. Upon a "Change in Status Notice" becoming effective, the note shall thereafter constitute unsubordinated obligations and the rate of interest on the note shall be reduced from 6.000% per annum to 5.500% per annum. As "Change in Status Notice" has not been served, the rate of interest on the note remains at 6.000% per annum. Pursuant to the exchange offer by the Bank in 2017, the Bank settled and exchanged US\$20,976,000 of the Existing Notes for new tier 2 subordinated note due 2027 (Note(b)). Following the settlement of the exchange offer, the aggregate principal amount of the Existing Notes was US\$204,024,000. The note was matured on 4 November 2020.
- (b) This represented a subordinated note qualifying as tier 2 capital under Basel III accord with face value of US\$382,903,000 tier 2 subordinated notes issued on 26 July 2017 (the "New Notes"). The New Notes are 10-year non-call 5-year fixed rate notes, with a fixed coupon rate of 3.876% per annum, payable semi-annually for the first five years; the interest rate will be reset on 26 July 2022. This includes US\$22,903,000 of "New Exchange Notes" (being the New Notes issued pursuant to the exchange offer by the Bank to the holders of its US\$225,000,000 6.000% Subordinated Notes due 2020) and US\$360,000,000 of "New Money Notes". The New Notes have been listed on the Stock Exchange of Hong Kong under Stock Code of 05249 on 27 July 2017.
- (c) The subordinated notes issued are not secured by any collateral.

Analysis of changes in financing cash flow of loan capital during the year

	2020 HK\$'000	2019 HK\$'000
At 1 January	4,579,912	4,507,147
Changes from financing cash flows:		
Redemption of loan capital	(1,629,378)	–
Interest paid on loan capital	(213,627)	(210,804)
	2,736,907	4,296,343
Exchange adjustments	27,635	(26,678)
Fair value hedge adjustments	49,271	93,477
Other changes		
Interest expense	149,300	230,391
Other non-cash movements	70,065	(13,621)
Total other changes	219,365	216,770
At 31 December	3,033,178	4,579,912

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31. SHARE CAPITAL

	2020		2019	
	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 and 31 December	972,526	9,977,060	972,526	9,977,060

32. ADDITIONAL EQUITY INSTRUMENTS

	2020 HK\$'000	2019 HK\$'000
Additional Tier 1 Capital Securities		
US\$400 million undated non-cumulative subordinated capital securities (Note (a))	3,111,315	3,111,315
US\$300 million undated non-cumulative subordinated capital securities (Note (b))	2,316,681	–
	5,427,996	3,111,315

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 5.700% 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.

- (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.

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33. DEFERRED TAXATION

For the purpose of presentation in the statements 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:

	2020 HK\$'000	2019 HK\$'000
Deferred tax assets	32,109	28,767
Deferred tax liabilities	(96,932)	(145,247)
	<u>(64,823)</u>	<u>(116,480)</u>

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

	Accelerated tax depreciation HK\$'000	Impairment allowances HK\$'000	Investment properties HK\$'000	Revaluation of FVOCI securities HK\$'000	Remeasurement of retirement benefits HK\$'000	Total HK\$'000
At 1 January 2020	(119,387)	83,731	(18,142)	(58,258)	(4,424)	(116,480)
(Charge) credit to income statement for the year (Note 15)	(9,594)	(5,405)	-	-	-	(14,999)
Credit (charge) to other comprehensive income for the year	-	-	-	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>
At 1 January 2019	(52,141)	61,454	(18,550)	14,397	(4,424)	736
(Charge) credit to income statement for the year (Note 15)	(67,246)	22,277	96	-	-	(44,873)
Credit (charge) to other comprehensive income for the year	-	-	-	(72,655)	-	(72,655)
Exchange adjustments	-	-	312	-	-	312
At 31 December 2019	<u>(119,387)</u>	<u>83,731</u>	<u>(18,142)</u>	<u>(58,258)</u>	<u>(4,424)</u>	<u>(116,480)</u>

Deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the Mainland branches amounting to HK\$1,362,137,000 (2019: HK\$965,532,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

34. SHARE BASED PAYMENT

SHARE OPTION SCHEME

The Bank adopted a share option scheme (the "Scheme") pursuant to a resolution passed on 9 May 2012 for the primary purpose of providing incentives to directors and eligible employees and to replace the share option scheme (the "Expired Scheme") which expired on 24 April 2012. The terms of the Scheme are similar to those of the Expired Scheme. Under the Scheme, the Board of Directors of the Bank may grant options to eligible persons, including directors and employees of the Bank and its subsidiaries, to subscribe for shares in the Bank.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Bank in issue at the date of approval of the Scheme, without prior approval from the Bank's shareholders. No option may be granted to any person which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of the option already granted and to be granted to such person (including exercised, cancelled and outstanding options but excluding lapsed options) in the 12-month period up to and including the date of such new grant exceeding 1% of the shares in issue as at the date of such new grant, provided that options may be issued in excess of such limit if, among other things, such grant shall have been separately approved by shareholders of the Bank in a general meeting at which that proposed grantee and his associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) shall have abstained for voting.

Options granted must be taken up within 28 days of the date of offer, upon payment of HK\$10 per option, and the exercise period shall not in any event be longer than 10 years from the date of grant of the relevant options. The exercise price is determined by the Board of Directors of the Bank, and will be the highest of the closing price of the Bank's shares on the date of offer, the average closing price of the shares for the five business days immediately preceding the date of offer and the nominal value of the shares.

No options have been granted under the Scheme since it was adopted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

34. SHARE BASED PAYMENT *(Continued)*

SHARE AWARD SCHEME

The Share Award Scheme forms part of the incentive schemes of the Group. The Board considers that the award of the Award Shares to the Selected Employees recognises and motivates the outstanding contributions made by them and in driving the continuous business operation and development of the Group.

The Board considers that the grant of Award Shares to the Directors of the Bank and of the Bank's subsidiaries is fair and reasonable and is in the interests of the Bank and the Shareholders as well as the Independent Shareholders as a whole.

The Bank awards selected employees in the form of issuing new shares of Chong Hing Bank listed on the Stock Exchange. The Bank has adopted a share vesting schedule of 25% per year and will be fully vested in 4 years. Upon fulfilment of pre-defined vesting conditions, the new shares will be issued to the relevant selected employee on each designated vesting date. In principle, at the end of the fourth year, all share awarded to the relevant selected employee would be fully vested. The share award will be revoked if the relevant selected employee is found to be voluntarily resigned, terminated and summarily dismissed before the vesting date.

As at 31 December 2020, the following awards of shares were offered to Directors and selected employees of the Group:

Date of award	Number of award shares granted	Average fair value per share	Vesting period	
			From	To
27 February 2020	1,447,397	11.372	16 March 2021	16 March 2024

The fair value of an award share is based on the share price at the date of award.

Movement in the number of Award Shares outstanding was as follows:

	2020 Number of award shares
Outstanding as at 1 January	–
Awarded during the year	1,447,397
Vested during the year	–
Forfeited during the year	(91,466)
Outstanding as at 31st December	1,355,931

The remaining vesting period of the outstanding Award Shares was as follows:

Award Shares	Remaining vesting period years	Number of award shares
27 February 2020	0.21 to 3.21	1,355,931

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

35. INTANGIBLE ASSETS

	Club Membership HK\$'000	Goodwill HK\$'000	Software HK\$'000	Internally developed software HK\$'000	Total HK\$'000
COST					
At 1 January 2020	14,090	110,606	14,698	719,478	858,872
Addition	–	–	–	–	–
Addition through internal development	–	–	–	66,213	66,213
Exchange adjustment	–	–	957	3,299	4,256
At 31 December 2020	14,090	110,606	15,655	788,990	929,341
ACCUMULATED AMORTISATION					
At 1 January 2020	–	–	1,929	7,654	9,583
Amortisation	–	–	983	3,509	4,492
Exchange adjustment	–	–	186	707	893
At 31 December 2020	–	–	3,098	11,870	14,968
ACCUMULATED IMPAIRMENT					
At 1 January and 31 December 2020	–	71,000	–	–	71,000
NET BOOK VALUE					
At 31 December 2020	14,090	39,606	12,557	777,120	843,373
COST					
At 1 January 2019	14,090	110,606	12,009	491,926	628,631
Addition	–	–	3,959	–	3,959
Addition through internal development	–	–	–	227,663	227,663
Exchange adjustment	–	–	(1,270)	(111)	(1,381)
At 31 December 2019	14,090	110,606	14,698	719,478	858,872
ACCUMULATED AMORTISATION					
At 1 January 2019	–	–	1,016	2,414	3,430
Charge for the year	–	–	834	3,210	4,044
Exchange adjustment	–	–	79	2,030	2,109
At 31 December 2019	–	–	1,929	7,654	9,583
ACCUMULATED IMPAIRMENT					
At 1 January and 31 December 2019	–	71,000	–	–	71,000
NET BOOK VALUE					
At 31 December 2019	14,090	39,606	12,769	711,824	778,289

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

35. INTANGIBLE ASSETS (Continued)

The Group acquired 100% of issued share capital of Chong Hing Insurance Company Limited ("CHI"). The amount of goodwill arising as a result of acquisition was HK\$110,606,000.

For the year ended 31 December 2020, the management has reviewed goodwill for impairment testing purpose. The review comprised a comparison of the carrying amount and the fair value less cost to sell, of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business. The fair value of CHI as at 31 December 2020 was estimated by applying market approach based on a price-to-book ratio of 1 (2019: 1).

The management of the Group determines no impairment loss on the goodwill for the year ended 31 December 2020 (2019: nil).

During the year, there was an addition of HK\$46,104,000 to internally developed software, which is a computer software currently under internal development. Included in the balance as at 31 December 2020, HK\$247,421,000 (2019: HK\$193,727,000) is capitalised from expenditures that directly attributable to the development of the software.

36. OTHER ACCOUNTS AND ACCRUALS

	2020 HK\$'000	2019 HK\$'000
Accrued interest	1,281,380	1,489,064
Lease liabilities	506,593	528,967
Others	1,453,835	1,154,656
	3,241,808	3,172,687

TOTAL CASH OUTFLOW FOR LEASES

Amounts included in the consolidated cash flow statement and consolidated income statement for leases comprises the following:

	2020 HK\$'000	2019 HK\$'000
Payment of lease liabilities	185,300	209,297
Expenses relating to short-term leases	1,709	23,609
Expenses relating to leases of low-value assets	50	556
	187,059	233,462

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37. CONTINGENT LIABILITIES AND COMMITMENTS

	2020 HK\$'000	2019 HK\$'000
Contingent liabilities and commitments – contractual amounts		
Direct credit substitutes	2,686,382	469,730
Transaction-related contingencies	23,824	–
Trade-related contingencies	659,450	6,231,424
Forward asset purchases	100,080	54,650
Undrawn formal standby facilities, credit lines and other commitments		
Which are unconditionally cancellable without prior notice	31,838,953	29,560,421
With an original maturity of one year and under	3,392,615	3,469,420
With an original maturity of over one year	7,609,633	6,427,993
Lease commitments	58	1,812
	46,310,995	46,215,450

The credit risk-weighted amount of contingent liabilities and commitments is HK\$6,517,255,000 (2019: HK\$4,727,613,000).

The credit risk-weighted amount is calculated based on “standardised approach”. The risk-weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2019: 0% to 100%) which is assessed in accordance with the Banking (Capital) Rules.

Direct credit substitutes include financial guarantees given by the Group.

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

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2020 HK\$'000	2019 HK\$'000
Within one year	50	1,789
In the second to fifth years, inclusive	8	23
	58	1,812

Operating lease payments represent short-term and low-value lease payable by the Group for certain of its office properties.

Capital commitments outstanding at the end of the reporting period are as follows:

	2020 HK\$'000	2019 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	100,080	54,650

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

38. RETIREMENT BENEFITS SCHEME

At the beginning of the reporting period, the Group had two retirement schemes in operation including a defined benefit scheme (the "ORSO Scheme"), which was registered under the Occupational Retirement Scheme Ordinance in 1995, and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. Employees who were members of the ORSO Scheme in defined contribution segment prior to the establishment of the MPF Scheme could stay within the ORSO Scheme or switch to the MPF Scheme, whereas all new employees joining the Group on or after December 2000 are required to join the MPF Scheme. Most of the employees enrolled in the MPF Scheme in replacement of the ORSO Scheme (the "participating members"). The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Under the MPF Scheme, the employee contributes 5% of the relevant payroll to the MPF Scheme while the Group contributes from 5% to 10% of the relevant payroll to the MPF Scheme depending on the years of service completed.

The Group operates the ORSO Scheme for qualifying employees. Under the ORSO Scheme, the employees are entitled to retirement benefits varying between 0 and 100 percent of total contributions on attainment of a retirement age of 60. Upon retirement, the employees are entitled to monthly pension until death varying between 0 and 100 percent of final salary depending on years of service completed at the time of retirement.

The trustees of the ORSO Scheme have resolved to terminate the ORSO Scheme on 20 March 2019. The ORSO Scheme has ceased operations and on the same date transferred all assets to Chong Hing Bank Limited – New Staff Retirement Benefits Scheme (the "New Scheme") on 30 August 2019 with a new trustee appointed. The New Scheme mirrors the benefit provisions of the ORSO Scheme.

The most recent actuarial valuation of the defined benefit segment of the ORSO Scheme was carried out as at 31 December 2020 by the qualified actuaries of Towers Watson Hong Kong Limited. The actuarial valuation is carried out periodically, but at least triennially. The present value of the defined benefit obligation and the current service cost have been measured using the Projected Unit Credit method. At the date of the latest formal independent actuarial valuation made on 31 December 2020, the net retirement asset of the defined benefit segment was HK\$38,415,000.

	2020 HK\$'000
Amounts recognised in the consolidated income statement in respect of the defined benefit plans are as follow:	
Interest cost on benefit obligation	(304)
Interest income on plan assets	803
Net interest income	499
Amount recognised in other comprehensive income in respect of the defined benefit plans is as follow:	
Difference between actual return on plan assets and interest, and actuarial losses	10,220

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

38. RETIREMENT BENEFITS SCHEME *(Continued)*

The amount included in the consolidated statement of financial position arising from the Group's defined benefit retirement benefit plan is as follows:

	2020 HK\$'000
Present value of defined benefit obligation	(15,036)
Fair value of plan assets	53,451
	<u>38,415</u>

Changes in the present value of the defined benefit obligation are as follow:

	2020 HK\$'000
Opening defined benefit obligation	17,682
Interest cost	304
Actuarial gain	(1,673)
Benefits paid	(1,277)
Closing defined benefit obligation	<u>15,036</u>

Changes in fair value of plan assets are as follow:

	2020 HK\$'000
Opening fair value of plan assets	45,378
Interest income	803
Return on plan assets	8,547
Benefits paid	(1,277)
Closing fair value of plan assets	<u>53,451</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

38. RETIREMENT BENEFITS SCHEME *(Continued)*

The major categories of plan assets as a percentage of the fair value of total plan assets are as follow:

	2020 %
Cash	4
Guaranteed fund	96

The fair value of the plan assets as at 31 December 2020 for each category, are as follow:

	2020 HK\$'000
Cash	1,924
Guaranteed fund	51,554
	53,478

The ORSO Scheme's defined benefit segment exposes the Group to the interest rate risk, longevity risk and price risk as at 31 December 2020.

INTEREST RATE RISK

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to the yields of the Hong Kong Government Exchange Fund Notes. A decrease in the discount rate would increase the plan liability.

LONGEVITY RISK

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of qualifying employees both during and after their employment. An increase in the life expectancy of the qualifying employees will increase the plan's liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

38. RETIREMENT BENEFITS SCHEME (Continued)

PRICE RISK

As stated above, 96% of the assets were invested into direct equities as at 31 December 2020. Such high concentration may expose to the Group to price risk when the equity prices fluctuate.

The significant assumptions used in determining the defined benefit obligations are shown below:

	2020 %
Discount rate (per annum)	0.8
Expected rate of pension increase (per annum)	0.0

The table below indicates the potential effect of change of the significant assumptions on the defined benefit obligation:

	2020 Change in assumption	
	+0.25% HK\$'000	-0.25% HK\$'000
Discount rate	(366)	384

	Age +1 year HK\$'000	Age -1 year HK\$'000
Pensioner mortality	(687)	698

As at 31 December 2020, the weighted average duration of the defined benefit obligation is approximately 9.6 years.

The costs for providing benefits to the members of the ORSO Scheme's defined benefit segment are funded by the Group. The contributions required by the Group to fund the costs are determined by periodic funding valuations in accordance with the Occupational Retirement Scheme Ordinance.

As of 31 December 2020, the Group is not required to contribute to the ORSO Scheme's defined benefit segment with respect to the members of the ORSO Scheme's defined benefit segment according to the results of the last statutory funding valuation of the ORSO Scheme's defined benefit segment as at 31 December 2020. The Group's contribution rate may be subject to change when the results of the next statutory funding valuation of the ORSO Scheme's defined benefit segment in every three years become available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

39. RELATED PARTY TRANSACTIONS

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

	Interest, commission and rental income		Interest, rental and other operating expenses	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Ultimate holding company	14	13	31,965	23,052
Intermediate holding company	4,482	13,620	6,747	6,674
Fellow subsidiaries	42,758	48,174	112,929	107,185
Associates	74,690	59,856	25,266	29,338
Key management personnel (<i>Note 1</i>)	4,712	701	1,204	3,212

During the year, the Group had net trading income with intermediate holding company and fellow subsidiary of HK\$1,627,000 (2019: HK\$8,293,000).

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

	Amounts due from related parties		Amounts due to related parties	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000 (Restated – Note 2)
Ultimate holding company	–	–	1,018,913	1,462,124
Intermediate holding company	200,000	200,000	278,595	278,428
Fellow subsidiaries	1,109,070	1,299,499	6,931,486	5,654,924
Associates	–	–	295,693	272,657
Key management personnel (<i>Note 1</i>)	636,461	43,490	896,483	174,565

Note 1: Includes key management personnel, close family members of key management personnel and entities that are controlled or jointly controlled, directly or indirectly, by key management personnel.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

39. RELATED PARTY TRANSACTIONS *(Continued)*

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.

As at 31 December 2020, the Group held financial assets at FVOCI issued by fellow subsidiaries of HK\$141,893,000 (31 December 2019: HK\$78,598,000) and held financial assets at amortised cost issued by fellow subsidiaries of HK\$23,824,000 (31 December 2019: HK\$ nil).

Amounts due from related parties are included in advances and other accounts on the statements of financial position.

Amounts due to related parties are included in deposits from customers on the statements of financial position.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors and other members of the key management during the year was as follows:

	2020 HK\$'000	2019 HK\$'000
Short-term benefits	198,461	178,092
Post employment benefits	12,748	10,558
Share-based payment	5,978	–
	217,187	188,650

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

As of 31 December 2020, the Group accrued a bonus for the Group's senior management and employees. The accrued bonus was approved by the Remuneration Committee on 24 February 2021. The Group has not completed the allocation of the bonus to individual senior management. The allocation of accrued bonus included under short-term benefits above represents the best estimate of management for the bonus to be distributed to key management personnel as of the date of approval of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

40. CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to ensure compliance with the statutory capital adequacy ratio requirement, a requirement used to assess the capital adequacy of banks. Capital is allocated to the various activities of the Group depending on the risk taken by each business division. Where the subsidiaries or branches are directly regulated by other regulators, they are required to maintain capital according to the rules of those regulators.

The Group's objective when managing capital are:

- comply with the capital requirements under the Banking (Capital) Rules of the Hong Kong Banking Ordinance; and
- support the Group's stability and business growth so as to provide reasonable returns for shareholders.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management, employing techniques based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance. The required information is filed with the Hong Kong Monetary Authority (the "HKMA") on a quarterly basis.

The HKMA requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at or above the minimum as stipulated in the Banking (Capital) Rules. In addition, branches outside Hong Kong of the Bank are also directly regulated and supervised by their local banking supervisors, which may differ from country to country. Subsidiaries of the Group are also subject to statutory capital requirements from other regulatory authorities, such as the Securities and Futures Commission and the Insurance Authority.

The capital adequacy ratios are computed on the consolidated basis, which includes the Bank and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Group has established a capital planning process to assess the adequacy of its capital to support current and future activities and to set the Group's capital adequacy goals in relation to risk, taking into account its strategic focus and business plan. Key factors to consider in this process including additional capital required for future expansion, results of the stress test programme regularly conducted, dividend policy, income recognition and provisioning policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK

	2020 HK\$'000	2019 HK\$'000
Assets		
Cash and short-term funds	21,793,126	20,396,725
Placements with banks maturing between one to twelve months	1,478,103	5,525,049
Derivative financial instruments	1,645,450	705,930
Investments in securities	52,805,252	57,459,375
Advances and other accounts	151,699,507	125,614,505
Tax recoverables	168,841	–
Investments in subsidiaries	250,984	250,984
Amounts due from subsidiaries	201,523	205,518
Interests in associates	20,000	20,000
Investment properties	247,100	257,400
Property and equipment	912,895	935,241
Deferred tax assets	32,109	28,767
Intangible assets	803,767	738,683
Total assets	232,058,657	212,138,177
Liabilities		
Deposits and balances of banks	8,229,574	6,949,921
Financial assets sold under repurchase agreements	786,540	4,253,852
Deposits from customers	183,332,636	162,743,941
Amounts due to subsidiaries	595,814	574,970
Derivative financial instruments	3,775,482	1,902,951
Other accounts and accruals	2,743,053	2,804,531
Current tax liabilities	12,825	479,326
Certificates of deposit	2,551,530	3,749,075
Loan capital	3,033,178	4,579,912
Deferred tax liabilities	79,733	127,305
Total liabilities	205,140,365	188,165,784
Equity attributable to owners of the Bank		
Share capital	9,977,060	9,977,060
Additional equity instruments	5,427,996	3,111,315
Reserves (Note (a))	11,513,236	10,884,018
Total equity	26,918,292	23,972,393
Total liabilities and equity	232,058,657	212,138,177

Approved and authorised for issue by the Board of Directors on 4 March 2021 and signed on its behalf by:

Zhang Zhaoxing
Chairman

Zong Jianxin
Executive Director, Deputy Chairman and Chief Executive

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for the year ended 31 December 2020

41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK (Continued)

Note (a):

	Share-based payment reserve HK\$'000	Investment revaluation 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
THE BANK								
At 1 January 2020	–	406,871	179,633	1,378,500	(173,595)	1,039,000	8,053,609	10,884,018
Profit for the year	–	–	–	–	–	–	1,356,949	1,356,949
Exchange differences arising on translation	–	–	–	–	336,503	–	–	336,503
Remeasurement of retirement benefit	–	–	–	–	–	–	10,220	10,220
Income tax effect relating to retirement benefit	–	–	–	–	–	–	(1,686)	(1,686)
Net gains (losses) on investments in equity instruments measured at FVOCI	–	(2,594)	–	–	–	–	–	(2,594)
Net gains (losses) on investments in debt instruments measured at FVOCI	–	(407,272)	–	–	–	–	–	(407,272)
Amount reclassified to the profit or loss upon disposal of FVOCI debt securities	–	(57,416)	–	–	–	–	–	(57,416)
Income tax effect relating to disposal of financial assets measured at FVOCI	–	9,474	–	–	–	–	–	9,474
Income tax effect relating to fair value change of financial assets measured at FVOCI	–	61,847	–	–	–	–	–	61,847
Other comprehensive income	–	(395,961)	–	–	336,503	–	8,534	(50,924)
Total comprehensive income for the year	–	(395,961)	–	–	336,503	–	1,365,483	1,306,025
Redemption of additional equity instruments	–	–	–	–	–	–	–	–
Equity settled share-based transaction	6,023	–	–	–	–	–	–	6,023
Distribution payment for additional equity instruments	–	–	–	–	–	–	(177,116)	(177,116)
Interim dividend paid	–	–	–	–	–	–	(106,978)	(106,978)
Final dividend paid	–	–	–	–	–	–	(398,736)	(398,736)
Earmark of retained profits as regulatory reserve	–	–	–	–	–	(436,000)	436,000	–
At 31 December 2020	6,023	10,910	179,633	1,378,500	162,908	603,000	9,172,262	11,513,236

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for the year ended 31 December 2020

41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK (Continued)

Note (a): (Continued)

	Share-based payment reserve HK\$'000	Investment revaluation 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
THE BANK								
At 1 January 2019	-	(8,527)	179,633	1,378,500	(116,728)	912,000	7,112,778	9,457,656
Profit for the year	-	-	-	-	-	-	1,826,085	1,826,085
Exchange differences arising on translation	-	-	-	-	(56,867)	-	-	(56,867)
Surplus on transfer of land and buildings to investment properties	-	-	-	-	-	-	-	-
Net gains (losses) on investments in equity instruments measured at FVOCI	-	1,125	-	-	-	-	-	1,125
Net gains (losses) on investments in debt instruments measured at FVOCI	-	527,209	-	-	-	-	-	527,209
Amount reclassified to the profit or loss upon disposal of FVOCI debt securities	-	(40,899)	-	-	-	-	-	(40,899)
Income tax effect relating to disposal of financial assets measured at FVOCI	-	6,748	-	-	-	-	-	6,748
Income tax effect relating to fair value change of financial assets measured at FVOCI	-	(78,785)	-	-	-	-	-	(78,785)
Other comprehensive income	-	415,398	-	-	(56,867)	-	-	358,531
Total comprehensive income for the year	-	415,398	-	-	(56,867)	-	1,826,085	2,184,616
Redemption of additional equity instruments	-	-	-	-	-	-	(41,174)	(41,174)
Equity settled share-based transaction	-	-	-	-	-	-	-	-
Distribution payment for additional equity instruments	-	-	-	-	-	-	(153,015)	(153,015)
Interim dividend paid	-	-	-	-	-	-	(165,329)	(165,329)
Final dividend paid	-	-	-	-	-	-	(398,736)	(398,736)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	127,000	(127,000)	-
At 31 December 2019	-	406,871	179,633	1,378,500	(173,595)	1,039,000	8,053,609	10,884,018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK *(Continued)*

Note (a): *(Continued)*

The Bank's reserves available for distribution to owners as at 31 December 2020 comprised retained profits of HK\$9,055,117,000 (2019: HK\$7,876,893,000) and general reserve of HK\$1,378,500,000 (2019: HK\$1,378,500,000).

The regulatory reserve is set up in compliance with the HKMA's requirements and is distributable to owners of the Bank subject to consultation with the HKMA.

The general reserve is comprised of transfers from previous years' retained profits.

The investment revaluation reserve represents cumulative gains and losses arising on the revaluation of FVOCI investments that have been recognised in other comprehensive income, net of amounts reclassified to the income statement when those FVOCI debt securities are disposed of.

The land and building revaluation reserve represents difference between fair value and carrying value of the properties transferred from owner-occupied properties to investment properties.

Exchange differences relating to the translation of the net assets of the Bank's foreign operations from their functional currencies to the Bank's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the translation reserve. Such exchange differences accumulated in the translation reserve are reclassified to the income statement on the disposal of the foreign operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

42. BENEFITS AND INTERESTS OF DIRECTORS

(DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP 622) AND COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP 622G)) AND LISTING RULES

The emoluments of the Directors and the Chief Executive of the Bank were as follows:

(A) Directors' emoluments

	2020							Total HK\$'000
	Fees HK\$'000	Salaries HK\$'000	Bonus HK\$'000	Housing allowance HK\$'000	Employer's contribution to retirement benefits scheme HK\$'000	Estimated value of other benefits HK\$'000	Share-based payment HK\$'000	
Executive Directors and Chief Executive								
Zong Jianxin	180	10,361	960	-	-	759	749	13,009
Lau Wai Man	180	5,394	656	-	-	539	342	7,111
Total Executive Directors' and Chief Executive's emoluments	360	15,755	1,616	-	-	1,298	1,091	20,120
Non-executive Directors								
Zhang Zhaoxing	490	-	-	-	-	-	-	490
Chow Cheuk Yu Alfred	510	-	-	-	-	-	-	510
Li Feng	440	-	-	-	-	-	-	440
Chen Jing	420	-	-	-	-	-	-	420
Total Non-executive Directors' emoluments	1,860	-	-	-	-	-	-	1,860
Independent Non-executive Directors								
Cheng Yuk Wo	610	-	-	-	-	-	-	610
Lee Ka Lun	620	-	-	-	-	-	-	620
Ma Chiu Cheung Andrew	570	-	-	-	-	-	-	570
Yu Lup Fat Joseph	600	-	-	-	-	-	-	600
Total Independent Non-executive Directors' emoluments	2,400	-	-	-	-	-	-	2,400
Total	4,620	15,755	1,616	-	-	1,298	1,091	24,380

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

42. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP 622) AND COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP 622G) AND LISTING RULES (Continued))

(A) Directors' emoluments (Continued)

	2019							
	Fees HK\$'000	Salaries HK\$'000	Bonus HK\$'000	Housing allowance HK\$'000	Estimated value of other benefits HK\$'000	Employer's contribution to retirement benefits scheme HK\$'000	Share-based payment HK\$'000	Total HK\$'000
Executive Directors and Chief Executive								
Zong Jianxin	180	10,266	3,128	-	-	701	-	14,275
Lau Wai Man	180	5,364	1,352	-	-	536	-	7,432
Total Executive Directors' and Chief Executive's emoluments	360	15,630	4,480	-	-	1,237	-	21,707
Non-executive Directors								
Zhang Zhaoxing	490	-	-	-	-	-	-	490
Chow Cheuk Yu Alfred	510	-	-	-	-	-	-	510
Li Feng	440	-	-	-	-	-	-	440
Chen Jing	420	-	-	-	-	-	-	420
Total Non-executive Directors' emoluments	1,860	-	-	-	-	-	-	1,860
Independent Non-executive Directors								
Cheng Yuk Wo	610	-	-	-	-	-	-	610
Lee Ka Lun	620	-	-	-	-	-	-	620
Ma Chiu Cheung Andrew	570	-	-	-	-	-	-	570
Yu Lup Fat Joseph	600	-	-	-	-	-	-	600
Total Independent Non-executive Directors' emoluments	2,400	-	-	-	-	-	-	2,400
Total	4,620	15,630	4,480	-	-	1,237	-	25,967

Note:

- For the year ended 31 December 2020, no directors have waived any emoluments (2019: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

42. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP 622) AND COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP 622G)) AND LISTING RULES *(Continued)*

(B) *Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors*

The information about loans, quasi-loans and other dealings entered into by the company or subsidiary undertaking of the company, where applicable, in favour of directors is as follows:

	Aggregate balance of all relevant loans outstanding		Maximum aggregate balance of relevant loans during the year
	at January 1	at December 31	
	HK\$'000	HK\$'000	HK\$'000
2020	2,483	2,369	3,594
2019	4,089	2,483	4,600

The loans bear interest at rates ranging from 0% to prime rate plus 10%. Included in the loans to officers are loans of HK\$2,152,000 (2019: HK\$2,449,000) secured by collateral. The collateral consists mainly of properties, securities and fixed deposits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

42. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP 622) AND COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP 622G) AND LISTING RULES *(Continued)*)

(C) Five Highest Paid Individuals

The five highest paid individuals in the Group in 2020 included two (2019: two) directors whose emoluments are set out in note 42(A) above. The emoluments of the remaining three (2019: three) highest paid individuals are as follows:

	2020 HK\$'M	2019 HK\$'M
Salary and other emoluments	12.7	13.0
Contributions to pension scheme	0.5	0.5
Discretionary bonuses	2.4	4.7
Share-based payment	0.4	–
	16.0	18.2

Their emoluments are within the following bands:

HK\$	2020 Number of individuals	2019 Number of individuals
4,000,001 – 4,500,000	1	1
5,000,001 – 5,500,000	1	–
6,000,001 – 6,500,000	–	1
6,500,001 – 7,000,000	1	–
7,000,001 – 7,500,000	–	1

43. IMMEDIATE AND ULTIMATE HOLDING COMPANIES

As at 31 December 2020 and 31 December 2019, the immediate holding company of the Bank was Yuexiu Financial Holdings Limited, which is incorporated in Hong Kong. Its ultimate holding company was Guangzhou Yue Xiu Holdings Limited, which is incorporated in the People's Republic of China.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2020

The following information is disclosed as part of the accompanying information to the financial statements and does not form part of the audited financial statements.

The preparation of supplementary financial information is in accordance with the Banking (Disclosure) Rules and consolidated supervision arrangement approved by the HKMA.

1. MAJOR SPECIALISED COMMITTEES

The Board is constituted in accordance with the Bank's Articles of Association and is ultimately responsible for the sustainable performance of the Group. The Board has established the following specialised committees and delegated its authorities and power to enable them to operate under defined terms of reference. The Board reviews and updates the committees' Terms of Reference on a regular basis.

These specialised committees are:

- (i) **Audit Committee**
- (ii) **Connected Party Transactions Committee**
- (iii) **Executive Committee**
- (iv) **Nomination Committee**
- (v) **Remuneration Committee**
- (vi) **Risk Committee**

The Terms of Reference and the composition of each of the above committees are set out in the "Corporate Governance Report" of this Annual Report.

The Executive Committee has established the Asset and Liability Management Committee (the "ALCO") and the Risk Management Committee (the "RMC"). The roles and functions of these committees are as follows:

(VII) ALCO

Members of the ALCO are appointed by the Executive Committee, comprising senior executives of the Bank.

The ALCO is established to facilitate the oversight of the Board in the management of the assets liabilities and capital of the Group from the perspective of containing the pertinent capital funding and liquidity, interest rate, foreign exchange and other market risks. The assessment of the impact of the current economic and business climate on the Group's statement of financial position, and the formulation of the corresponding strategies and plans also come under other key functions of the ALCO.

(VIII) RMC

Members of the RMC are appointed by the Executive Committee. It comprises the Chief Risk Officer with other senior executives who are responsible for risk management, compliance issues and daily operations of the Bank.

The RMC is responsible for the oversight of risk management of the Group, within the framework of the Group's policies, its Terms of Reference and such other directives as the Executive Committee may determine from time to time.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2020

2. MANAGEMENT OF RISKS

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

The management of assets and liabilities of the Group is conducted under guidance of the ALCO. The ALCO holds meetings every two weeks, and more frequent meetings when required, to review and direct the relevant policies, the business strategies and to monitor the bank-wide positions. The day-to-day management of the funding and liquidity, foreign exchange, interest rate and other market risks, and the compliance with the ALCO and the RMC policies are monitored by the Finance and Capital Management Division, the Treasury Division and the Market Risk Management Department with the assistance of various qualitative and quantitative analyses.

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

(i) OPERATIONAL AND LEGAL RISK

Operational risk is the risk of unexpected losses attributable to human error, systems failures, frauds, or inadequate internal controls and procedures.

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

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

(ii) REPUTATION RISK

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

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

Details of the Group's capital management, credit risk, liquidity risk, market risk, foreign exchange risk, interest rate risk management policies and measures are set out in note 7 to the consolidated financial statements.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2020

3. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS

	2020 %	2019 %
Total capital ratio	16.79	17.51
Tier 1 capital ratio	14.36	14.32
Common Equity Tier 1 ("CET 1") capital ratio	11.27	12.28
	31 December 2020 %	31 December 2019 %
Capital buffers (as a percentage of risk-weighted assets)		
Capital conservation buffer ratio	2.500	2.000
Countercyclical capital buffer ratio	0.667	1.411
	3.167	3.411
	2020 %	2019 %
Leverage ratio	10.38	9.90
	2020 %	2019 %
Average liquidity maintenance ratio for the year	44.98	46.27

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2020

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

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

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

Liquidity maintenance ratio (“LMR”) is compiled in accordance with the Banking (Liquidity) Rules under Hong Kong Banking Ordinance, which became effective on 1 January 2015. The LMR is calculated on an unconsolidated basis. The average liquidity maintenance ratio is calculated based on the arithmetic mean of the average value of the LMR of the Bank reported in the liquidity position return of the Bank for each month during the reporting period.

4. OTHER FINANCIAL INFORMATION

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

The “Regulatory Disclosure” will be available on the Bank’s website: <http://www.chbank.com/en/personal/footer/about-ch-bank/regulatory-disclosures/index.shtml> in the “Regulatory Disclosure” section in accordance with the Banking (Disclosure) Rules.

5. SEGMENTAL INFORMATION

The Group’s information concerning geographical analysis has been classified by the location of the principal operations of the branches and subsidiary companies responsible for reporting the results or booking the assets. Details are set out in note 6 to the consolidated financial statements.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2020

6. ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS

The Group's gross advances to customers (including advances booked in branches outside Hong Kong and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans or business activities of the borrowers. Details are set out in note 7 (credit risk) to the consolidated financial statements.

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

	2020		
	Advances overdue for over three months as at 31 December HK\$'000	New impairment allowances during the year HK\$'000	Advances written-off during the year HK\$'000
Loans for use outside Hong Kong	120,429	78,344	97,488

	2019		
	Advances overdue for over three months as at 31 December HK\$'000	New impairment allowances during the year HK\$'000	Advances written-off during the year HK\$'000
Loans for use outside Hong Kong	163,176	36,731	2,849

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2020

7. ADVANCES TO CUSTOMERS – BY GEOGRAPHICAL AREAS

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

	2020				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Stage 3 impairment allowance HK\$'000	Stage 1 & stage 2 impairment allowance HK\$'000
Hong Kong	96,302,200	305,209	902,171	337,606	329,979
Mainland China	42,315,428	–	–	–	204,952
Macau	3,268,157	–	20,305	4,880	922
Others	495,832	–	–	–	950
	<u>142,381,617</u>	<u>305,209</u>	<u>922,476</u>	<u>342,486</u>	<u>536,803</u>

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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2020

8. INTERNATIONAL CLAIMS

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

	At 31 December 2020				
	Non-bank private sector				
	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Offshore centres	5,572,214	8,491	11,527,918	21,217,887	38,326,510
of which					
– Hong Kong	5,357,307	8,143	8,161,101	9,490,275	23,016,826
Developing Asia-Pacific	4,691,055	13,568	19,475,820	6,548,488	30,728,931
of which					
– Mainland China	4,138,294	13,419	19,475,820	6,545,683	30,173,216
Developed countries	4,642,020	2,110,067	149,553	541,270	7,442,910

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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2020

9. CURRENCY RISK

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

	2020		
	US\$ HK\$'000	RMB HK\$'000	Total HK\$'000
Spot assets	63,747,783	59,735,234	123,483,017
Spot liabilities	(43,823,457)	(63,902,166)	(107,725,623)
Forward purchases	64,587,796	10,441,667	75,029,463
Forward sales	(79,677,743)	(5,090,230)	(84,767,973)
Net options position	820	1	821
Net long position	<u>4,835,199</u>	<u>1,184,506</u>	<u>6,019,705</u>

	US\$ HK\$'000	MOP HK\$'000	RMB HK\$'000	Total HK\$'000
Net structural position	<u>220,630</u>	<u>48,544</u>	<u>3,216,240</u>	<u>3,485,414</u>

	2019		
	US\$ HK\$'000	RMB HK\$'000	Total HK\$'000
Spot assets	64,243,593	46,798,123	111,041,716
Spot liabilities	(43,131,770)	(49,542,008)	(92,673,778)
Forward purchases	75,909,117	13,973,283	89,882,400
Forward sales	(96,320,126)	(10,396,881)	(106,717,007)
Net options position	–	–	–
Net long position	<u>700,814</u>	<u>832,517</u>	<u>1,533,331</u>

	US\$ HK\$'000	MOP HK\$'000	RMB HK\$'000	Total HK\$'000
Net structural position	<u>221,623</u>	<u>48,544</u>	<u>3,019,680</u>	<u>3,289,847</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2020

10. OVERDUE AND RESCHEDULED ASSETS

	2020		2019	
	Gross amount of advances HK\$'000	Percentage to total advances %	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for				
– 6 months or less but over 3 months	172,215	0.1	3,321	0.0
– 1 year or less but over 6 months	12,014	0.0	36,800	0.0
– Over 1 year	120,980	0.1	187,030	0.2
Total overdue advances	<u>305,209</u>	<u>0.2</u>	<u>227,151</u>	<u>0.2</u>
Rescheduled advances	<u>91,006</u>	<u>0.1</u>	<u>1,724</u>	<u>0.0</u>
Stage 3 impairment allowances made in respect of overdue loans and advances	<u>213,022</u>		<u>184,962</u>	

The value of the security of the above overdue advances is analysed as follows:

	2020 HK\$'000	2019 HK\$'000
Covered portion of overdue loans and advances	81,990	43,827
Uncovered portion of overdue loans and advances	223,219	183,324
	<u>305,209</u>	<u>227,151</u>
Market value of collateral held against covered portion of overdue loans and advances	<u>88,423</u>	<u>58,386</u>

Collateral held with respect to overdue loans and advances are mainly properties.

There were no advances to banks or other assets which were overdue for over three months as at 31 December 2020 and 31 December 2019, nor were there any rescheduled advances to banks and other financial institutions.

Repossession assets held by the Group as at 31 December 2020 amounted to HK\$15,250,000 (2019: Nil).

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2020

11. MAINLAND ACTIVITIES EXPOSURES

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

	31 December 2020		
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000
Type by counterparties			
1. Central government, central government-owned entities and their subsidiaries and joint ventures	33,091,141	4,038,102	37,129,243
2. Local government, local government-owned entities and their subsidiaries and JVs	10,285,577	1,445,409	11,730,986
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	36,429,792	5,810,389	42,240,181
4. Other entities of central government not reported in item 1 above	7,769,838	2,076,593	9,846,431
5. Other entities of local government not reported in item 2 above	994,725	546,102	1,540,827
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	14,555,668	903,214	15,458,882
7. Other counterparties where the exposures are considered by the reporting institution to be nonbank Mainland China exposures	7,982,439	1,069,689	9,052,128
Total	111,109,180	15,889,498	126,998,678
Total assets after provision (Note)	231,396,482		
On-balance sheet exposures as percentage of total assets (Note)	48.02%		

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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11. MAINLAND ACTIVITIES EXPOSURES (Continued)

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

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

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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2020

12. BASIS OF CONSOLIDATION

The consolidated financial statements cover the consolidated financial information of the Bank and all its subsidiaries and include the attributable share of interest in the Group's associates.

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

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

Name of company	Principal activities	Total assets		Total equity	
		2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Chong Hing (Nominees) Limited	Provision of nominee services	100	100	100	100
Chong Hing Securities Limited	Stockbroking	1,169,883	740,570	579,529	491,115
Chong Hing Commodities and Futures Limited	Commodities and futures broking	67,350	70,160	66,496	66,954
Chong Hing Insurance Company Limited	Insurance underwriting	412,191	427,661	290,161	276,560
Chong Hing Insurance Brokers Limited	Insurance broking	4,710	4,000	4,170	3,890
Chong Hing (Management) Limited	Provision of management services	85	98	78	85

HEAD OFFICE, BRANCHES, SUB-BRANCHES, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 4 March 2021

		Telephone
HONG KONG MAIN BRANCH	Chong Hing Bank Centre 24 Des Voeux Road Central	3768 1111
HONG KONG ISLAND BRANCHES		
Aberdeen	166-168 Aberdeen Main Road	3768 6210
Causeway Bay	488 Jaffe Road	3768 6290
North Point	376 King's Road	3768 6200
Shau Kei Wan	203-205 Shau Kei Wan Road	3768 6330
Sheung Wan	163 Wing Lok Street	3768 6220
Wan Chai	265-267 Hennessy Road	3768 6350
Western	347-349 Des Voeux Road West	3768 6280
KOWLOON BRANCHES		
Castle Peak Road	285-287 Castle Peak Road, Cheung Sha Wan	3768 6320
How Ming Street	114 How Ming Street, Kwun Tong	3768 6480
Kowloon Bay	Shop Unit 8, G/F, Chevalier Commercial Centre No. 8 Wang Hoi Road	3768 6740
Kowloon City	31-33 Nga Tsin Wai Road	3768 6300
Kwun Tong	31-33 Mut Wah Street	3768 6410
Lei Yue Mun	Shop 123, 1/F, Domain, 38 Ko Chiu Road, Yau Tong	3768 6530
Mongkok	591 Nathan Road	3768 0001
San Po Kong	55-57 Yin Hing Street	3768 6360
Sham Shui Po	144-148 Tai Po Road	3768 6310
Shun Lee Estate	Lee Yat House, Shun Lee Estate	3768 6420
Tak Tin Estate	No. 207, Tak Tin Plaza, Tak Tin Estate, Lam Tin	3768 6470
To Kwa Wan	34-34A Tam Kung Road	3768 6370
Tsim Sha Tsui	16 Granville Road	3768 6240
Tsz Wan Shan	60-64 Sheung Fung Street	3768 6390

HEAD OFFICE, BRANCHES, SUB-BRANCHES, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 4 March 2021

		Telephone
NEW TERRITORIES BRANCHES		
Cheung Fat Estate	Shop No. 206A, 2/F, Cheung Fat Plaza Cheung Fat Estate, Tsing Yi	3768 6560
Glorious Garden	Shop No. 82, Glorious Garden, 45 Lung Mun Road Tuen Mun	3768 6520
Heng On Estate	Level 3, Commercial Centre, Heng On Estate Ma On Shan, Shatin	3768 6450
Shatin	Shop 1A, Ground Floor, Lucky Plaza, Shatin	3768 6400
Sheung Shui	71 San Fung Avenue	3768 6270
Sheung Tak Estate	Shop No. 237, TKO Spot, Sheung Tak Estate Tseung Kwan O	3768 6510
Tai Wo Plaza	Shop No. 101 I, Level 1, Tai Wo Plaza No. 12 Tai Wo Road, Tai Po	3768 6900
Tin Chak Estate	Shop No. 218, 2/F, Tin Chak Shopping Centre Tin Chak Estate, Tin Shui Wai	3768 6570
Tsuen Wan	298 Sha Tsui Road	3768 6440
Tuen Mun Hong Lai Garden	G/F, Hong Lai Garden, 117 Heung Sze Wui Road Tuen Mun	3768 6580
Yat Tung Estate	Shop Nos. 1 & 2, G/F, Yat Tung Shopping Centre Yat Tung Estate, Tung Chung	3768 6710
Yuen Long	99-109 Castle Peak Road	3768 6230
GUANGZHOU BRANCH		
Guangzhou	50/F, Yuexiu Financial Tower, No. 28 Zhujiang East Road Tianhe District, Guangzhou, Guangdong, China	(86-20) 2213 7988
SHENZHEN BRANCH		
Shenzhen	Unit 17, 18 & 19 of 1st Floor Unit 39 of 2nd Floor, Unit 703 of 7th Floor & 13th Floor, T2 Tower, Ali Center No. 3331 Keyuan South Road (Shenzhen Bay) Nanshan District, Shenzhen, China	(86-755) 3352 9099

HEAD OFFICE, BRANCHES, SUB-BRANCHES, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 4 March 2021

Telephone

SHANGHAI BRANCH

Shanghai	28th Floor, Yue Xiu Tower No. 388 Fushan Road, Pudong, Shanghai, China	(86-21) 6085 3000
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SHANTOU BRANCH

Shantou	No. 103-105, Block One, Lanbao International Mansion, Fengzezhuang No. 162 Jinsha Road, Shantou, Guangdong, China	(86-754) 8890 3224
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DONGGUAN SUB-BRANCH

Dongguan	Unit 105, Nanfeng Center, No. 106 Hongfu Road, Nancheng District, Dongguan, Guangdong, China	(86-769) 8608 5888
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GUANGZHOU TIANHE SUB-BRANCH

Guangzhou Tianhe	Units 102-01, 201 and 301 No. 28 Zhujiang East Road, Tianhe District Guangzhou, Guangdong, China	(86-20) 2213 7988
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GUANGDONG PILOT FREE TRADE ZONE

NANSHA SUB-BRANCH

Nansha	Room 801-805, Building No. 1 No. 106 Fengze Road East, Nansha District Guangzhou, Guangdong, China	(86-20) 3226 0620
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FOSHAN SUB-BRANCHES

Foshan	Unit B107 & B205-2, Level 1 and Level 2, Mall 1 Yuexiu Xing Hui Yun Jin Plaza No. 84 North Nanhai Da Dao, Guicheng Jie Dao Nanhai District, Foshan, Guangdong, China	(86-757) 6352 2888
Foshan Chancheng	No. 68-70, Ground Floor, No. 33 Tongji East Road Chancheng District, Foshan, Guangdong, China	(86-757) 6352 2818

GUANGDONG PILOT FREE TRADE ZONE

HENGQIN SUB-BRANCH

Hengqin	Area B, Block 10, Hengqin Financial Industry Service Base, Shizimen Central Business District Hengqin New Area, Zhuhai, Guangdong, China	(86-756) 3833 039
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HEAD OFFICE, BRANCHES, SUB-BRANCHES, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 4 March 2021

Telephone

MACAU BRANCH

Macau	No. 693, Avenida da Praia Grande Edificio Tai Wah, R/C, Macau	(853) 2833 9982
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PRINCIPAL SUBSIDIARIES

Card Alliance Company Limited
Chong Hing Commodities and Futures Limited
Chong Hing Finance Limited
Chong Hing Information Technology Limited
Chong Hing Insurance Brokers Limited
Chong Hing Insurance Company Limited
Chong Hing (Management) Limited
Chong Hing (Nominees) Limited
Chong Hing Securities Limited
Gallbraith Limited
Hero Marker Limited
Top Benefit Enterprise Limited

ASSOCIATES

Bank Consortium Holding Limited
BC Reinsurance Limited
Hong Kong Life Insurance Limited

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