

Financial Disclosure Statement

TAI YAU BANK, LIMITED

Reports and Financial Statements
For the year ended 31 December 2021

TAI YAU BANK, LIMITED

REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

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TAI YAU BANK, LIMITED

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

Tai Yau Bank, Limited (the "Bank") is a private limited liability company incorporated in Hong Kong. It is a licensed bank authorised under the Hong Kong Banking Ordinance. The Bank provides banking and other related financial services to its customers and placements with banks in Hong Kong.

BUSINESS REVIEW

Our business activities as mentioned above are carried out under prudent risk management. In view of the changing macroeconomic environment, the Bank has been closely monitoring the market volatility in order to manage its liquidity risks and enhance the return on assets.

ANALYSIS OF KEY FINANCIAL DATA

For the year ended 31 December 2021, loss before tax amounted to HK\$15,076,078 (2020: profit HK\$1,128,914). Interest income derived from bank placements with annual interest rates ranging from 0.001% to 0.31% (2020: from 0.04% to 2.25%) amounted to HK\$3,136,786 (2020: HK\$23,300,648), which was 86% lower than last year. Total assets in the current year amounted to HK\$2,056,381,738 (2020: HK\$2,188,739,704), representing a decrease of 6% from last year.

With regards to the Bank's operating expenses, the directors' emoluments and staff costs amounted to HK\$13,077,006 (2020: HK\$10,940,981), showing an increase of 19% from last year.

Total capital ratio of 218.07% as at 31 December 2021 (2020: 197.92%) increased by 10%. Both Tier 1 capital ratio and Common Equity Tier 1 capital ratio were maintained at 217.90% (2020: 197.90%), representing an increase of 10% from last year.

For the year ended 31 December 2021, the net interest margin was 0.16% (2020: 0.88%) showing a decrease of 81% from the results in the previous year. Return on average total assets was -0.71% (2020: 0.06%). Return on equities was -1.89% (2020: 0.17%).

Overall, the Bank's core business lines and financial health are strong and sound. Its asset quality is good, capital adequacy ratio and liquidity maintenance ratio are well above the relevant statutory requirements.

TAI YAU BANK, LIMITED

ENVIRONMENTAL POLICIES AND PERFORMANCE

Sustainability and environmental conservation is an important issue for our customers, shareholders, the government and the general public. Therefore the Bank is committed to reducing its carbon footprint and consumption of natural resources in all possible aspects of business operations.

Our environmental strategy is centered on achieving a balance between the quality and efficiency of our services and the minimisation of greenhouse gas emissions and environmental degradation. Accordingly, the Bank has taken a proactive approach to effect internal and external communications by means of telephone, emails or such other communication means which are efficient yet environmentally friendly. Consequently we are able to minimise physical printing.

At present, except for legal documents such as contracts and share certificates and documentary evidence for audit or legal purposes, the Bank avoids keeping duplicate of hardcopy of all documents and reports. All kinds of documents are scanned and saved in an electronic system for future retrieval.

E-mails and electronic messages have replaced letters for some formal and informal communications, both externally and internally.

COMPLIANCE WITH LAWS AND REGULATIONS

The Bank operates in a highly regulated sector where the risk of non-compliance with regulatory requirements could lead to the loss of operating licenses. Accordingly the effective management of the relationship between the Bank and its regulators could significantly impact the success of the Bank and its long term value. Therefore, we make it a top priority to ensure compliance with the relevant rules and regulations, and to stay up to date on new laws.

During the year under review, the Bank has, therefore, deployed considerable resources, as well as adopted and implemented relevant measures, to ensure that the relevant statutory and regulatory requirements are complied with and that a high standard of corporate governance practices is maintained.

Compliance with these laws, regulations and similar requirements may be onerous and expensive. Any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation could individually or in the aggregate make the Bank's services less attractive to the Bank's customers; delay the introduction of new services; or cause the Bank to change or limit its business practices. The Bank has implemented policies and procedures designed to ensure compliance with the most relevant laws and regulations, but there can be no assurance that the Bank's employees or agents will not violate such laws and regulations or the Bank's policies and procedures.

RELATIONSHIPS WITH EMPLOYEES

The employees of the Bank are one of the most important assets and stakeholders of the Bank and their contribution and support are valued at all times. The Bank regularly reviews compensation and benefit policies according to industry benchmark, financial results as well as the individual performance of employees. Other fringe benefits and mandatory provident fund are provided to retain loyal employees with the aim to form a professional staff and management team that can bring the Bank to new levels of success. Staff satisfaction can be seen by our low staff turnover. Furthermore, the Bank places great emphasis on the training and development of employees and regard excellent employees as a key factor in its competitiveness.

TAI YAU BANK, LIMITED

RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

Our directors believe that maintaining good relationships with customers has been one of the critical reasons for the Bank's success. Our mission is to provide the finest services to our customers. The Bank is constantly looking at ways to improve customer relationship through enhanced services. Through carrying out the above we hope to enhance our business opportunities with our customers and reach out for new potential clients.

The Bank has no major suppliers due to the nature of the principal activities of the Bank.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Bank include strategic, operational and financial risks.

Strategic risks

The directors maintain a strategic plan together with a financial budget at the end of each financial year based on the knowledge to external environments and a number of forecast and estimates. Given the rapid change of unforeseeable external environments in the financial industry, the Bank is facing significant strategic risks on its business decisions and capital expenditures when changing the strategic plans to adapt to the unexpected changes of external environments.

Operational risks

The management regularly reviews the Bank's operations to ensure that the Bank's risk of losses, whether financial or otherwise, resulting from fraud, errors, omissions and other operational and compliance matters, are adequately managed. The Bank has also established its own business continuity plan to protect the Bank from the risk of interruption to its business continuity.

Financial risks

The principal financial risks are set out in note 18 to the financial statements heading "FINANCIAL INSTRUMENTS".

RESULTS AND APPROPRIATIONS

The results of the Bank for the year ended 31 December 2021 are set out in the statement of profit or loss and other comprehensive income on page 9.

SHARE CAPITAL

Details of the Bank's share capital are set out in note 17 to the financial statements. There was no movement in the Bank's share capital during the year.

TAI YAU BANK, LIMITED

DIVIDENDS

The Directors have declared the NIL dividend for 2021 (2020: NIL) in respect of the financial year ended 31 December 2021.

DISTRIBUTABLE RESERVES OF THE BANK

The Bank's reserves available for distribution to shareholders as at 31 December 2021 comprised the retained profits, general reserve and capital reserve of HK\$496,557,395 (2020: HK\$511,633,473).

DIRECTORS

The directors of the Bank during the year and up to the date of this report were:

Mr. Ko, Sai Kin Kenneth (Chairman)
Mr. Ko, Derek Fook Ying
Mr. Ko, Arthur Sai Chun
Mr. Ko, Sai Kit Larry
Ms. Ko, Mang Yee Adaline
Ms. So, Tuen Tuen Jessica
Mr. Wong, Wang Yan Mark
Mr. Yuen, Man Ying

In accordance with the Bank's Articles of Association, all directors retire and, being eligible, offer themselves for re-election.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Bank a party to any arrangements 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' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Bank was a party and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

In accordance with Article 126 of the Bank's Articles of Association, there is a permitted indemnity provision for the benefit of the directors of the Bank which is currently in force and was in force throughout the year.

TAI YAU BANK, LIMITED

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Bank.

On behalf of the Board
Mr. Ko, Sai Kin Kenneth
CHAIRMAN
22 March 2022

INDEPENDENT AUDITOR'S REPORT**TO THE MEMBERS OF TAI YAU BANK, LIMITED**
(Incorporated in Hong Kong with limited liability)**Opinion**

We have audited the financial statements of Tai Yau Bank, Limited (the "Bank") set out on pages 9 to 46, which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and its 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 ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TAI YAU BANK, LIMITED - continued
(Incorporated in Hong Kong with limited liability)

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 HKSAAs 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 financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Bank's internal control.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TAI YAU BANK, LIMITED - continued
(Incorporated in Hong Kong with limited liability)

Auditor's Responsibilities for the Audit of the Financial Statements - continued

- 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 Bank'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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2022

TAI YAU BANK, LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	<u>NOTES</u>	<u>2021</u> HK\$	<u>2020</u> HK\$
Interest income	4	3,136,786	23,300,648
Interest expense	5	(509,540)	(5,534,662)
Net interest income		<u>2,627,246</u>	<u>17,765,986</u>
Gain on fair value changes of financial asset through profit or loss		725,000	-
Other operating income	6	<u>280,783</u>	<u>167,275</u>
Operating income		3,633,029	17,933,261
Operating expenses	7	(18,752,038)	(16,811,131)
Impairment write-back	8	<u>42,931</u>	<u>6,784</u>
(Loss) profit before taxation		(15,076,078)	1,128,914
Income tax credit	9	<u>-</u>	<u>272,326</u>
(Loss) profit and total comprehensive income for the year		<u>(15,076,078)</u>	<u>1,401,240</u>

TAI YAU BANK, LIMITED

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2021

	<u>NOTES</u>	<u>2021</u> HK\$	<u>2020</u> HK\$
ASSETS			
Cash and balances with banks	10	458,057,419	448,682,362
Placements with banks	10	1,588,991,518	1,730,555,981
Advances to customers and other accounts receivable	11	1,179,349	2,111,278
Prepayment		420,560	75,365
Tax recoverable		3,110,831	3,110,831
Financial asset at fair value through profit or loss	12	4,125,000	3,400,000
Equipment and leasehold improvements	13	41,667	348,493
Intangible asset		210,000	210,000
Deferred tax assets	14	245,394	245,394
TOTAL ASSETS		<u>2,056,381,738</u>	<u>2,188,739,704</u>
LIABILITIES			
Deposits from customers	15	1,255,293,054	1,373,690,499
Other accounts payable and provisions	16	4,481,289	3,365,732
		<u>1,259,774,343</u>	<u>1,377,056,231</u>
CAPITAL RESOURCES			
Share capital	17	300,000,000	300,000,000
Reserves		496,607,395	511,683,473
SHAREHOLDERS' FUNDS		<u>796,607,395</u>	<u>811,683,473</u>
TOTAL LIABILITIES AND CAPITAL RESOURCES		<u>2,056,381,738</u>	<u>2,188,739,704</u>

The financial statements on pages 9 to 46 were approved and authorised for issue by the Board of Directors on 22 March 2022 and are signed on its behalf by:

DIRECTORS: KO, SAI KIN KENNETH
 KO, DEREK FOOK YING
 KO, ARTHUR SAI CHUN

TAI YAU BANK, LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	<u>Share capital</u> HK\$	<u>Retained profits</u> HK\$	<u>General reserve</u> HK\$	<u>Regulatory reserve</u> HK\$	<u>Capital reserve</u> HK\$	<u>Total</u> HK\$
At 1 January 2020	300,000,000	460,175,174	46,000,000	100,000	5,507,059	811,782,233
Transfer of regulatory reserve to retained profits	-	50,000	-	(50,000)	-	-
Final dividend paid	-	(1,500,000)	-	-	-	(1,500,000)
Profit and other comprehensive income for the year	-	1,401,240	-	-	-	1,401,240
At 31 December 2020	<u>300,000,000</u>	<u>460,126,414</u>	<u>46,000,000</u>	<u>50,000</u>	<u>5,507,059</u>	<u>811,683,473</u>
At 1 January 2021	300,000,000	460,126,414	46,000,000	50,000	5,507,059	811,683,473
Loss and other comprehensive income for the year	-	(15,076,078)	-	-	-	(15,076,078)
At 31 December 2021	<u>300,000,000</u>	<u>445,050,336</u>	<u>46,000,000</u>	<u>50,000</u>	<u>5,507,059</u>	<u>796,607,395</u>

Note: 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 regulatory reserve transferred to retained profits in 2020 was per requirement from HKMA.

The general reserve and capital reserve comprised transfers from previous years' retained profits.

TAI YAU BANK, LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	<u>2021</u> HK\$	<u>2020</u> HK\$
OPERATING ACTIVITIES		
(Loss) profit before taxation	(15,076,078)	1,128,914
Adjustments for:		
Interest income	(3,136,786)	(23,300,648)
Interest expense	509,540	5,534,662
Gain on fair value changes of financial asset through profit or loss	(725,000)	-
Depreciation expenses	306,826	358,192
Impairment write-back	(42,931)	(6,784)
	<u>(18,164,429)</u>	<u>(16,285,664)</u>
Operating cash flows before movements in working capital	(18,164,429)	(16,285,664)
(Increase) decrease in placements with banks due within one month with original maturity more than three months	(236,349,981)	501,895,504
Decrease (increase) in placements with banks due more than one month with original maturity more than three months	321,647,277	(472,391,029)
Decrease in advances to customers	319,000	218,500
(Increase) decrease in prepayment	(345,195)	1,302
Decrease in deposits from customers	(118,397,445)	(417,442,080)
Increase in other accounts payable	1,186,835	83,855
	<u>(50,103,938)</u>	<u>(403,919,612)</u>
Cash used in operations	(50,103,938)	(403,919,612)
Interest received	3,753,541	29,012,645
Interest paid	(580,818)	(6,406,024)
Hong Kong Profits Tax paid	-	(4,064,491)
	<u>(46,931,215)</u>	<u>(385,377,482)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(46,931,215)</u>	<u>(385,377,482)</u>
FINANCING ACTIVITIES		
Dividend paid to shareholders	-	(1,500,000)
	<u>-</u>	<u>(1,500,000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(46,931,215)</u>	<u>(386,877,482)</u>
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>1,357,461,403</u>	<u>1,744,338,885</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>1,310,530,188</u>	<u>1,357,461,403</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and balances with banks	458,103,346	448,727,380
Placements with banks with original maturity less than three months	852,426,842	908,734,023
	<u>1,310,530,188</u>	<u>1,357,461,403</u>

TAI YAU BANK, LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. GENERAL

Tai Yau Bank, Limited (the "Bank") is a private limited liability company incorporated in Hong Kong. It is a licensed bank authorised under the Hong Kong Banking Ordinance. The address of the registered office and principal place of business of the Bank is 29/F, Tai Tung Building, 8 Fleming Road, Wan Chai, Hong Kong.

The major businesses of the Bank are the provision of banking and other related financial services to its customers and placements with banks in Hong Kong.

The financial statements are presented in Hong Kong dollars ("HK\$"), which is the functional currency of the Bank.

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Bank has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2

The application of the new and amendments to HKFRSs in the current year has had no material impact on the Bank's financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

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

New or amendments to HKFRSs in issue but not yet effective

The Bank has not early applied the following new or amendments to HKFRSs that have been issued but are not yet effective.

HKFRS 17	Insurance Contracts and the related Amendments ³
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ³
Amendments to HKAS 8	Definition of Accounting Estimates ³
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 - 2021 ²

¹ Effective for annual periods beginning on or after 1 April 2021.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after 1 January 2023.

⁴ Effective for annual periods beginning on or after a date to be determined.

The directors of the Bank anticipate that the application of the new and amendments to HKFRSs will have no material impact on the financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Hong Kong Companies Ordinance.

The financial statements have been prepared on the historical cost basis except for financial asset at fair value through profit or loss that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis that leasing transactions are accounted for in accordance with HKFRS 16 and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 Impairment of Assets.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equal the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Interest income and expense

Interest income and expense for all financial instruments, excluding those financial assets at fair value through profit or loss, are recognised in Interest income and Interest expense in the statement of profit or loss and other comprehensive income calculating by applying the effective interest rate ("EIR") to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Equipment and leasehold improvements

Equipment and leasehold improvements is stated in the statement of financial position at cost less subsequent accumulated depreciation and amortisation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, 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 estimates accounted for on a prospective basis.

An item of equipment and leasehold improvements is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of equipment and leasehold improvements is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Financial instruments

Financial assets and financial liabilities are recognised and derecognised on a trade date basis.

Financial assets and financial liabilities are initially recognised at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets - continued

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss.

Impairment of financial assets

The Bank performs impairment assessment under expected credit loss ("ECL") model on financial assets (including cash and balances with banks, placements with banks, advances to customers and other accounts receivable) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Bank's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

For all instruments, the Bank measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Bank recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

(i) Significant increase in credit risk - continued

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Bank has reasonable and supportable information that demonstrates otherwise.

The Bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Bank considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Bank, in full.

Irrespective of the above, the Bank considers that default has occurred when a financial asset is more than 90 days past due unless the Bank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Bank writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Bank's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive, discounted at the effective interest rate determined at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

(v) Measurement and recognition of ECL - continued

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped according to similar credit risk characteristics:

- Nature of financial instruments
- Past-due status
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Bank recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities including deposits from customer, interest payable and accounts payable, are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is 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. When 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 time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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/loss before tax because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

The carrying amount of deferred tax assets is reviewed at the end of each 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 realised, based on tax rates (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 Bank's expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate 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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Bank assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Bank as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Bank; and
- an estimate of costs to be incurred by the Bank in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leases - continued

The Bank as a lessee - continued

Right-of-use assets - continued

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Bank is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Lease liabilities

At the commencement date of a lease, the Bank recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Bank exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Bank remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leases - continued

The Bank as a lessee - continued

Lease modifications

The Bank accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Bank remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Foreign currencies

In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

TAI YAU BANK, LIMITED

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are recognised as expenses when employees have rendered service entitling them to the contributions.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with maturity from the date of acquisition at or less than three months, including cash and balances with banks and placements with banks with original maturity less than three months.

4. INTEREST INCOME

	<u>2021</u> HK\$	<u>2020</u> HK\$
Interest on placements with banks	3,136,334	23,299,723
Interest on advances to customers	452	925
	<u>3,136,786</u>	<u>23,300,648</u>

5. INTEREST EXPENSE

	<u>2021</u> HK\$	<u>2020</u> HK\$
Interest on deposits from customers	509,540	5,534,662

6. OTHER OPERATING INCOME

	<u>2021</u> HK\$	<u>2020</u> HK\$
Fees and commission income	31,684	31,832
Other income	249,099	135,443
	<u>280,783</u>	<u>167,275</u>

TAI YAU BANK, LIMITED

7. OPERATING EXPENSES

	<u>2021</u> HK\$	<u>2020</u> HK\$
Auditor's remuneration	719,960	680,000
Depreciation of equipment	306,826	358,192
Directors' emoluments		
- Fees	1,300,000	1,500,000
- Other emoluments:		
Salaries	1,330,000	1,330,000
Long services payment	3,375,000	-
Other operating expenses	3,845,929	3,514,442
Operating lease payments	802,317	1,317,516
Staff costs		
- Salaries and bonus	6,863,223	7,891,024
- Contributions to Mandatory Provident Fund	208,783	219,957
	<u>18,752,038</u>	<u>16,811,131</u>

8. IMPAIRMENT WRITE-BACK

	<u>2021</u> HK\$	<u>2020</u> HK\$
Cash and balances with banks	(909)	(13,019)
Placements with banks maturing within one month	(24,328)	106,724
Placements with banks maturing one to twelve months	64,342	(90,994)
Advances to customers	3,826	4,073
	<u>42,931</u>	<u>6,784</u>

9. INCOME TAX CREDIT

The tax credit (expense) comprises:

	<u>2021</u> HK\$	<u>2020</u> HK\$
Hong Kong Profits Tax		
- Current year	-	(93,135)
- Overprovision in prior years	-	365,461
	<u>-</u>	<u>272,326</u>

No provision for Hong Kong Profits Tax is required since the Bank has no assessable profit for the year.

TAI YAU BANK, LIMITED

9. INCOME TAX CREDIT - continued

The tax credit (expense) for the year can be reconciled to the (loss) profit before tax per the statement of profit or loss and other comprehensive income as follows:

	<u>2021</u> HK\$	<u>2020</u> HK\$
(Loss) profit before tax	<u>(15,076,078)</u>	<u>1,128,914</u>
Tax at Hong Kong Profits Tax rate (Note)	2,487,553	(93,135)
Overprovision in respect of prior years	-	365,461
Tax effect of tax losses not recognised	<u>(2,487,553)</u>	<u>-</u>
	<u>-</u>	<u>272,326</u>

Note: In 2020 and 2021, Hong Kong Profits Tax was calculated at 8.25% on estimated profits up to HK\$2,000,000 and 16.5% on any part of estimated profits over HK\$2,000,000.

10. CASH AND BALANCES AND PLACEMENTS WITH BANKS

	<u>2021</u> HK\$	<u>2020</u> HK\$
At amortised cost		
Cash and balances with banks		
- Cash	1,551,834	1,911,004
- Due from Hong Kong Monetary Authority ("HKMA")		
- on demand	443,001,634	434,001,385
- Interbank Clearing Account	-	144,819
- Due from foreign banks - on demand	10,510,198	9,805,092
- Due from local banks - on demand	3,039,680	2,865,080
Less: Impairment losses - Stage 1	<u>(45,927)</u>	<u>(45,018)</u>
	<u>458,057,419</u>	<u>448,682,362</u>
Placements with banks maturing		
- within 1 month	471,841,555	407,203,858
- between 1-3 months	1,067,679,019	1,108,921,193
- between 3-6 months	50,000,000	165,000,000
- between 6-12 months	-	50,000,000
Less: Impairment losses - Stage 1	<u>(529,056)</u>	<u>(569,070)</u>
	<u>1,588,991,518</u>	<u>1,730,555,981</u>
Total	<u>2,047,048,937</u>	<u>2,179,238,343</u>

TAI YAU BANK, LIMITED

11. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS RECEIVABLE

The advances to customers and other accounts receivable comprise:

	<u>2021</u> HK\$	<u>2020</u> HK\$
Advances to staff	732,000	1,051,000
Less: Impairment allowance - stage 1	(5,500)	(9,326)
	<u>726,500</u>	<u>1,041,674</u>
Interest receivable	452,849	1,069,604
	<u>1,179,349</u>	<u>2,111,278</u>

12. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2021</u> HK\$	<u>2020</u> HK\$
Unlisted securities:		
- club membership (financial asset at fair value through profit or loss)	4,125,000	3,400,000
	<u>4,125,000</u>	<u>3,400,000</u>

The unlisted securities is issued by a corporate entity in Hong Kong. As at 31 December 2021, the fair value of club membership with reference to the quote from the club's official website.

13. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	<u>Leasehold</u> <u>improvements</u> HK\$	<u>Equipment</u> HK\$	<u>Total</u> HK\$
COST			
At 1 January 2020	1,472,938	1,813,499	3,286,437
Additions	-	-	-
At 31 December 2020 and 2021	<u>1,472,938</u>	<u>1,813,499</u>	<u>3,286,437</u>
ACCUMULATED DEPRECIATION			
At 1 January 2020	1,472,938	1,106,814	2,579,752
Additions	-	358,192	358,192
At 31 December 2020	<u>1,472,938</u>	<u>1,465,006</u>	<u>2,937,944</u>
Additions	-	306,826	306,826
At 31 December 2021	<u>1,472,938</u>	<u>1,771,832</u>	<u>3,244,770</u>
CARRYING AMOUNT			
At 31 December 2021	<u>-</u>	<u>41,667</u>	<u>41,667</u>
At 31 December 2020	<u>-</u>	<u>348,493</u>	<u>348,493</u>

The above items of equipment are depreciated on a straight-line basis at 33.3% per annum.

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14. DEFERRED TAX ASSETS

The followings are the major deferred tax assets and deferred tax liabilities recognised by the Bank.

	<u>Accelerated tax depreciation</u> HK\$	<u>Provision for long service payments</u> HK\$	<u>Total</u> HK\$
At 1 January 2020, 31 December 2020 and 31 December 2021	(1,391)	246,785	245,394

The directors consider movements in deferred tax assets and liabilities during the current and prior years are not significant.

15. DEPOSITS FROM CUSTOMERS

	<u>2021</u> HK\$	<u>2020</u> HK\$
Current accounts	104,761,014	88,818,658
Savings deposits	478,485,742	398,770,283
Time, call and notice deposits	672,046,298	886,101,558
	<u>1,255,293,054</u>	<u>1,373,690,499</u>

16. OTHER ACCOUNTS PAYABLE AND PROVISIONS

	<u>2021</u> HK\$	<u>2020</u> HK\$
Interests payable to time, call and notice deposits	53,662	124,940
Provisions for long service payments	1,441,633	1,441,633
Other accounts payable:		
- Accounts payable	1,491,782	1,490,159
- Cashier orders	26,266	285,598
- Gift Cheques	19,200	14,500
- Others	8,877	8,902
- Interbank Clearing Account	1,439,869	-
	<u>2,985,994</u>	<u>1,799,159</u>
	<u>4,481,289</u>	<u>3,365,732</u>

TAI YAU BANK, LIMITED

17. SHARE CAPITAL

	<u>2021</u>		<u>2020</u>	
	<u>Number of shares</u>	<u>Amount HK\$</u>	<u>Number of shares</u>	<u>Amount HK\$</u>
Issued and fully paid:				
Ordinary shares				
At beginning and end of year	<u>3,000,000</u>	<u>300,000,000</u>	<u>3,000,000</u>	<u>300,000,000</u>

There was no movement in the Bank's share capital for both years.

18. FINANCIAL INSTRUMENTS

Categories of financial instruments

	<u>2021</u>	<u>2020</u>
	<u>HK\$</u>	<u>HK\$</u>
Financial assets		
Amortised cost	2,048,228,286	2,181,349,621
Fair value through profit or loss	<u>4,125,000</u>	<u>3,400,000</u>
Financial liabilities		
Amortised cost	<u>1,258,332,710</u>	<u>1,375,614,598</u>

Financial risk management objectives and policies

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

The Bank'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 adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by the Risk Committee under policies approved by the Board of Directors. The Risk Committee identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of 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 and other price risk.

18. FINANCIAL INSTRUMENTS - continued

Strategy in using financial instruments

By their nature, the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers for various periods, and seeks to earn interest margins by investing these funds in high-quality assets. The Bank maintains sufficient liquidity to meet all claims that might fall due.

Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligation resulting in financial loss to the Bank. The Bank's main income generating activity is placement to other banks and therefore credit risk is a principal risk. Credit risk arises from advances to customers and placement with banks maturing between one to twelve months. The Bank considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

Credit risk management

The Bank's Risk Committee is responsible for managing the Bank's credit risk by:

- Ensuring that the Bank has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Bank's stated policies and procedures, HKFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Bank, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Bank against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Bank's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Bank's processes for measuring ECL including monitoring of credit risk, incorporation of forward-looking information and the method used to measure ECL.

18. FINANCIAL INSTRUMENTS - continued

Credit risk management - continued

- Ensuring that the Bank has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

Significant increase in credit risk

As explained in note 3, the Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the expected credit loss allowance based on lifetime rather than 12-month ECL.

The Bank uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs and credit default swap ("CDS") spread as well as qualitative indicators which are external credit rating, significant adverse change in regulatory, economic or technological environment, adverse change in business and financial conditions and changes in performance behaviour of borrower or portfolio.

The Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Bank has reasonable and supportable information that demonstrates otherwise.

The Bank has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit risk are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due.

The Bank has controls and procedures in place to identify when the credit risk of an asset improves and the definition of significant increase in credit risk is no longer met. When this is the case the asset may move back to stage 1 from stage 2, subject to payments being up to date and the ability of the borrower to make future payments on time.

Measurement of ECL

The key inputs used for measuring ECL are:

- probability of default ("PD"); and
- loss given default ("LGD").

18. FINANCIAL INSTRUMENTS - continued

Measurement of ECL - continued

As explained above these figures are generally derived from statistical models and other historical external data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data, as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice.

Credit quality

The Bank monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument.

<u>Class of financial instrument</u>	<u>Financial statement line</u>	<u>Notes</u>
Financial assets at amortised cost to banks	Cash and balances with banks Placements with banks	10
Financial assets at amortised cost to customers	Advances to customers and other accounts receivable	11

An analysis of the Bank's credit risk concentrations per class of financial asset is provided in the following tables. For financial assets, the amounts in the table represent gross carrying amounts. Financial assets at amortised cost to banks represent cash and balances with banks and placements with banks while financial assets at amortised cost to customers represent term loans granted to employees of the Bank.

TAI YAU BANK, LIMITED

18. FINANCIAL INSTRUMENTS - continued

Credit quality - continued

	<u>2021</u> HK\$	<u>2020</u> HK\$
Financial assets at amortised cost to banks		
Concentration by sector		
- HKMA	443,001,634	434,001,385
- Foreign banks	10,510,198	9,805,092
- Local banks	1,592,560,254	1,733,990,131
	<u>2,046,072,086</u>	<u>2,177,796,608</u>
Concentration by region		
- Hong Kong	2,035,561,888	2,167,991,516
- United States	7,959,915	8,372,397
- United Kingdom	2,173,462	1,052,109
- Canada	376,821	380,586
	<u>2,046,072,086</u>	<u>2,177,796,608</u>
Financial assets at amortised cost to customers	<u>732,000</u>	<u>1,051,000</u>

There were no overdue, rescheduled and repossessed assets as at 31 December 2021 and 31 December 2020.

Financial asset at FVTPL

The maximum exposure to credit risk of the financial asset at FVTPL is its carrying amount of HK\$4,125,000 at 31 December 2021 (2020: HK\$3,400,000).

Collateral held as security

The Bank does not hold collateral or other credit enhancements associated with financial assets at 31 December 2021 (2020: Nil).

Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices.

The Bank's market risk exposures mainly arise from the interest rate risk and foreign exchange risk.

18. FINANCIAL INSTRUMENTS - continued

Management of market risk

The management of market risk is principally undertaken in treasury function using risk limits approved by the Board of Directors. The Bank has dedicated standards, policies and procedures in place to control and monitor the market risk. The market risks arise on the operation are assessed and managed under the supervision of Risk Committee. The Bank has met all the de minimise exemption criteria for calculation of market risk as set out in Banking (Capital) Rules issued by the Hong Kong Monetary Authority.

Foreign exchange risk

The Bank undertakes certain transactions denominated in foreign currencies; hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts where appropriate. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The following table illustrates the carrying amount of the Bank's foreign currency denominated monetary assets and liabilities. It indicates the concentration of currency risk at the end of the reporting period.

	<u>HK\$</u> HK\$'000	<u>US\$</u> HK\$'000	<u>GBP</u> HK\$'000	<u>CAD</u> HK\$'000	<u>Total</u> HK\$'000
<u>2021</u>					
<u>ASSETS</u>					
Cash and balances with banks	447,548	7,959	2,173	377	458,057
Placements with banks maturing within one month	394,942	26,127	42,644	8,057	471,770
Placements with banks maturing between one to twelve months	1,059,568	9,591	48,063	-	1,117,222
Advances to customers and other accounts receivable	1,164	6	9	-	1,179
Financial asset at fair value through profit or loss	4,125	-	-	-	4,125
	<u>1,907,347</u>	<u>43,683</u>	<u>92,889</u>	<u>8,434</u>	<u>2,052,353</u>
<u>LIABILITIES</u>					
Deposits from customers	1,125,080	32,462	90,641	7,110	1,255,293
Other accounts payable	3,023	3	14	-	3,040
	<u>1,128,103</u>	<u>32,465</u>	<u>90,655</u>	<u>7,110</u>	<u>1,258,333</u>
Net on-balance sheet position	<u>779,244</u>	<u>11,218</u>	<u>2,234</u>	<u>1,324</u>	<u>794,020</u>

TAI YAU BANK, LIMITED

18. FINANCIAL INSTRUMENTS - continued

Foreign exchange risk - continued

	<u>HK\$</u> HK\$'000	<u>US\$</u> HK\$'000	<u>GBP</u> HK\$'000	<u>CAD</u> HK\$'000	<u>Total</u> HK\$'000
<u>2020</u>					
<u>ASSETS</u>					
Cash and balances with banks	438,878	8,371	1,052	381	448,682
Placements with banks maturing within one month	289,972	26,828	82,201	8,155	407,156
Placements with banks maturing between one to twelve months	1,219,520	10,293	93,587	-	1,323,400
Advances to customers and other accounts receivable	2,095	11	5	-	2,111
Financial asset at fair value through profit or loss	3,400	-	-	-	3,400
	<u>1,953,865</u>	<u>45,503</u>	<u>176,845</u>	<u>8,536</u>	<u>2,184,749</u>
<u>LIABILITIES</u>					
Deposits from customers	1,159,770	32,425	174,432	7,063	1,373,690
Other accounts payable	1,908	4	12	-	1,924
	<u>1,161,678</u>	<u>32,429</u>	<u>174,444</u>	<u>7,063</u>	<u>1,375,614</u>
Net on-balance sheet position	<u>792,187</u>	<u>13,074</u>	<u>2,401</u>	<u>1,473</u>	<u>809,135</u>

Foreign currency sensitivity

The Bank is exposed to US\$ and no sensitivity analysis is prepared as the management considered that the effect is insignificant under the linked exchange rate system.

In addition, the following table details the Bank's sensitivity to a 5% increase and decrease in HK\$ against GBP and CAD. The 5% is the sensitivity rate used when reporting the foreign currency risk internally to key management personnel and represent management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items and adjust their translation at the year end at 5% change in foreign currency rates. For a 5% weakening/strengthening of the HK\$ against the relevant currencies, the impact on the profit after tax would be as follows:

	<u>Impact</u>	
	<u>2021</u> HK\$'000	<u>2020</u> HK\$'000
Profit after tax		
GBP	94/(94)	100/(100)
CAD	55/(55)	62/(62)

TAI YAU BANK, LIMITED

18. FINANCIAL INSTRUMENTS - continued

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

The Bank measures the exposure of its assets and liabilities to fluctuations in interest rates primarily by way of gap analysis which provides the Bank with a static view of the maturity and re-pricing characteristics of these positions. The daily maturity profile reports are prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated repricing dates whichever is earlier. The difference in the amount of assets and liabilities maturing or being re-priced in any time period category would then give the Bank an indication of the extent to which the Bank is exposed to the risk of potential changes in the net interest income.

The tables below summarise the Bank's exposure to interest rate risk. Included in the tables are the Bank's financial assets and financial liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to <u>1 month</u> HK\$'000	1 - 3 <u>months</u> HK\$'000	3 - 12 <u>months</u> HK\$'000	1 - 5 <u>years</u> HK\$'000	Over <u>5 years</u> HK\$'000	Non- interest <u>bearing</u> HK\$'000	<u>Total</u> HK\$'000
<u>At 31 December 2021</u>							
<u>ASSETS</u>							
Cash and balances with banks	-	-	-	-	-	458,057	458,057
Placements with banks maturing within one month	471,770	-	-	-	-	-	471,770
Placements with banks maturing between one to twelve months	-	1,067,261	49,961	-	-	-	1,117,222
Advances to customers and other accounts receivable	210	363	147	459	-	-	1,179
Financial asset at fair value through profit or loss	-	-	-	-	-	4,125	4,125
	<u>471,980</u>	<u>1,067,624</u>	<u>50,108</u>	<u>459</u>	<u>-</u>	<u>462,182</u>	<u>2,052,353</u>
<u>LIABILITIES</u>							
Deposits from customers	737,479	413,053	-	-	-	104,761	1,255,293
Other accounts payable	-	-	-	-	-	3,040	3,040
	<u>737,479</u>	<u>413,053</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,801</u>	<u>1,258,333</u>
Total interest sensitivity gap	<u>(265,499)</u>	<u>654,571</u>	<u>50,108</u>	<u>459</u>	<u>-</u>	<u>354,381</u>	<u>794,020</u>

TAI YAU BANK, LIMITED

18. FINANCIAL INSTRUMENTS - continued

Interest rate risk - continued

	Up to <u>1 month</u> HK\$'000	1 - 3 <u>months</u> HK\$'000	3 - 12 <u>months</u> HK\$'000	1 - 5 <u>years</u> HK\$'000	Over <u>5 years</u> HK\$'000	Non- interest <u>bearing</u> HK\$'000	<u>Total</u> HK\$'000
<u>At 31 December 2020</u>							
<u>ASSETS</u>							
Cash and balances with banks	-	-	-	-	-	448,682	448,682
Placements with banks maturing within one month	407,156	-	-	-	-	-	407,156
Placements with banks maturing between one to twelve months	-	1,108,563	214,837	-	-	-	1,323,400
Advances to customers and other accounts receivable	314	819	253	696	29	-	2,111
Financial asset at fair value through profit or loss	-	-	-	-	-	3,400	3,400
	<u>407,470</u>	<u>1,109,382</u>	<u>215,090</u>	<u>696</u>	<u>29</u>	<u>452,082</u>	<u>2,184,749</u>
<u>LIABILITIES</u>							
Deposits from customers	658,711	626,160	-	-	-	88,819	1,373,690
Other accounts payable	-	-	-	-	-	1,924	1,924
	<u>658,711</u>	<u>626,160</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,743</u>	<u>1,375,614</u>
Total interest sensitivity gap	<u>(251,241)</u>	<u>483,222</u>	<u>215,090</u>	<u>696</u>	<u>29</u>	<u>361,339</u>	<u>809,135</u>

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to floating interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 25 basis points (2020: 25 basis points) increase is used when reporting interest rate risk internally to management and represents management's assessment of the reasonably possible charge in interest rates.

If interest rates had been 25 basis points (2020: 25 basis points) higher and all other variables were held constant, the impact on the profit after tax, mainly attributable to the Bank's exposure to interest rates on its variable rate customer deposits, would be as follows:

	<u>Impacts</u>	
	<u>2021</u> HK\$'000	<u>2020</u> HK\$'000
Profit after tax	(997)	(830)

18. FINANCIAL INSTRUMENTS - continued

Liquidity risk

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows which is inherent in all banking operations and can be affected by a range of market-wide events.

Management of liquidity risk

Management is responsible for monitoring the Bank's liquidity position, and does so through the periodic review of the statutory liquidity maintenance ratio, the maturity profile of assets and liabilities, loan-to-deposit ratio and inter-bank transactions. Liquidity policy is monitored by management and reviewed regularly by the Risk Committee and Board of Directors of the Bank. The Bank's policy is to maintain a conservative level of liquid funds on a daily basis so that the Bank is prepared to meet its obligations when they fall due in the normal course of business and to satisfy statutory liquidity maintenance ratio requirements, and also to deal with any funding crises that may arise. Limits are set on the minimum proportion of maturing funds available to meet all the calls on cash resources such as overnight deposits, current accounts and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Bank's management sets internal target levels in respect of the daily and monthly average liquidity maintenance ratios. The Bank's accountant is responsible for monitoring these ratios and, where a liquidity position falls under the internal limits, the accountant reports his findings to the management who decides the appropriate corrective actions to be taken.

Liquidity table

The following table details the Bank's remaining contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities except where the Bank is entitled and intends to repay the liability before its maturity.

	Less than <u>1 month</u> HK\$'000	1 - 3 <u>months</u> HK\$'000	3 months to <u>1 year</u> HK\$'000	1 - 5 <u>years</u> HK\$'000	Over <u>5 years</u> HK\$'000	<u>Total</u> HK\$'000	<u>Carrying amount</u> HK\$'000
FINANCIAL LIABILITIES							
<u>As at 31 December 2021</u>							
Deposits from customers	842,271	413,135	-	-	-	1,255,406	1,255,293
Other accounts payables	2,026	1,014	-	-	-	3,040	3,040
	<u>844,297</u>	<u>414,149</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,258,446</u>	<u>1,258,333</u>
<u>As at 31 December 2020</u>							
Deposits from customers	747,594	626,354	-	-	-	1,373,948	1,373,690
Other accounts payables	984	940	-	-	-	1,924	1,924
	<u>748,578</u>	<u>627,294</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,375,872</u>	<u>1,375,614</u>

TAI YAU BANK, LIMITED

18. FINANCIAL INSTRUMENTS - continued

Off-balance sheet items

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities, financial guarantees (based on the earliest contractual maturity date) are summarised in the table below.

	No later than <u>1 year</u> HK\$'000	<u>1-5 years</u> HK\$'000	<u>Total</u> HK\$'000
<u>At 31 December 2021 and 31 December 2020</u>			
Guarantee, acceptances and other financial facilities	3,490	-	3,490

Analysis of assets and liabilities by remaining maturity

The maturity analysis based on the remaining period at the end of the reporting period to the contractual maturity date in accordance with the guideline issued by the Hong Kong Monetary Authority is shown below.

	Maturity Date							Carrying Amount HK\$'000
	Repayable on demand HK\$'000	One month or less HK\$'000	Three months or less but over one month HK\$'000	One year or less but over three months HK\$'000	Five years or less but over one year HK\$'000	Over five years HK\$'000	Undated HK\$'000	
<u>At 31 December 2021</u>								
<u>ASSETS</u>								
Cash and balances with banks	458,057	-	-	-	-	-	-	458,057
Placements with banks maturing within one month	-	471,770	-	-	-	-	-	471,770
Placements with banks maturing between one to twelve months	-	-	1,067,261	49,961	-	-	-	1,117,222
Advances to customers and other accounts receivable	-	210	363	147	459	-	-	1,179
Financial asset at fair value through profit or loss	-	-	-	-	-	-	4,125	4,125
Intangible asset	-	-	-	-	-	-	210	210
Deferred tax assets	-	-	-	-	-	-	245	245
Prepayment	-	-	-	-	-	-	421	421
Equipment and leasehold improvements	-	-	-	-	-	-	42	42
Tax recoverable	-	-	3,111	-	-	-	-	3,111
	<u>458,057</u>	<u>471,980</u>	<u>1,070,735</u>	<u>50,108</u>	<u>459</u>	<u>-</u>	<u>5,043</u>	<u>2,056,382</u>
<u>LIABILITIES</u>								
Deposits from customers	583,247	258,993	413,053	-	-	-	-	1,255,293
Other accounts payable	54	1,972	1,014	-	-	-	1,441	4,481
Tax payable	-	-	-	-	-	-	-	-
	<u>583,301</u>	<u>260,965</u>	<u>414,067</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,441</u>	<u>1,259,774</u>
Net liquidity gap	<u>(125,244)</u>	<u>211,015</u>	<u>656,668</u>	<u>50,108</u>	<u>459</u>	<u>-</u>	<u>3,602</u>	<u>796,608</u>

18. FINANCIAL INSTRUMENTS - continued

Analysis of assets and liabilities by remaining maturity - continued

	Maturity Date						Undated HK\$'000	Carrying Amount HK\$'000
	Repayable on demand HK\$'000	One month or less HK\$'000	Three months or less but over one month HK\$'000	One year or less but over three months HK\$'000	Five years or less but over one year HK\$'000	Over five years HK\$'000		
<u>At 31 December 2020</u>								
<u>ASSETS</u>								
Cash and balances with banks	448,682	-	-	-	-	-	-	448,682
Placements with banks maturing within one month	-	407,156	-	-	-	-	-	407,156
Placements with banks maturing between one to twelve months	-	-	1,108,563	214,837	-	-	-	1,323,400
Advances to customers and other accounts receivable	-	314	819	253	696	29	-	2,111
Financial asset at fair value through profit or loss	-	-	-	-	-	-	3,400	3,400
Intangible asset	-	-	-	-	-	-	210	210
Deferred tax assets	-	-	-	-	-	-	245	245
Prepayment	-	-	-	75	-	-	-	75
Equipment and leasehold improvements	-	-	-	-	349	-	-	349
Tax recoverable	-	-	-	3,111	-	-	-	3,111
	<u>448,682</u>	<u>407,470</u>	<u>1,109,382</u>	<u>218,276</u>	<u>1,045</u>	<u>29</u>	<u>3,855</u>	<u>2,188,739</u>
<u>LIABILITIES</u>								
Deposits from customers	487,589	259,941	626,160	-	-	-	-	1,373,690
Other accounts payable	309	675	940	-	-	-	1,442	3,366
Tax payable	-	-	-	-	-	-	-	-
	<u>487,898</u>	<u>260,616</u>	<u>627,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,442</u>	<u>1,377,056</u>
Net liquidity gap	<u>(39,216)</u>	<u>146,854</u>	<u>482,282</u>	<u>218,276</u>	<u>1,045</u>	<u>29</u>	<u>2,413</u>	<u>811,683</u>

Fair value of financial assets and liabilities

The directors considered that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements are approximately their fair values.

Capital management

The Bank has adopted a policy of maintaining a strong capital base to:

- comply with the capital requirements under the Banking (Capital) Rules of the Banking Ordinance; and
- support the Bank's stability so as to provide reasonable returns for shareholders.

Capital adequacy ratio, computed as a ratio of total regulatory capital to the risk-weighted assets, has remained well above the statutory minimum ratio.

18. FINANCIAL INSTRUMENTS - continued

Capital management - continued

Capital adequacy position and the use of regulatory capital are monitored closely by the Bank's management, employing techniques based on the Banking (Capital) Rules. The required information is filed with the Hong Kong Monetary Authority on a quarterly basis in the form of a statistical return.

The Bank has an established business planning process to assess the adequacy of its capital to support current and future activities. The process states the Bank's capital adequacy goals in relation to risk, taking into account its strategic focus and business plan.

Fair value measurements of financial instruments

This note provides information about how the Bank determines fair values of various financial assets and financial liabilities.

Some of the Bank's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Bank uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Bank measures the fair value with reference to the quote from the club's official website.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	<u>Fair value</u>			<u>Total fair value HK\$</u>
	<u>Level 1 HK\$</u>	<u>Level 2 HK\$</u>	<u>Level 3 HK\$</u>	
<u>31 December 2021</u>				
Financial asset at FVTPL				
- club membership	-	4,125,000	-	4,125,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>31 December 2020</u>				
Financial asset at FVTPL				
- club membership	-	3,400,000	-	3,400,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

During the current year, there was no transfers of financial instruments between Level 1 and Level 2.

In estimating the fair value of the club membership classified as Level 2, the fair value is arrived at with reference to the quote from the club's official website. The financial asset at FVTPL were measured at market value as at 31 December 2020 and 2021.

TAI YAU BANK, LIMITED

19. RELATED PARTY TRANSACTIONS

The Bank has undertaken a number of transactions, which include principally the acceptance of deposits, with its related parties, including key management personnel and their close family members and companies controlled or significantly influenced by them.

During the year, the Bank entered into the following transactions with related parties:

	<u>2021</u> HK\$	<u>2020</u> HK\$
Interest expense on deposits	495,865	5,421,335
Rental and other related expenses	802,317	1,317,516

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

	<u>2021</u> HK\$	<u>2020</u> HK\$
Current accounts	85,645,839	74,719,906
Savings deposits	369,913,894	284,771,056
Time, call and notice deposits	658,684,545	872,610,820
	<u>1,114,244,278</u>	<u>1,232,101,782</u>

The balance of current accounts is non-interest bearing and repayable on demand. The balance of savings deposits is interest bearing at 0.001% (2020: 0.10%) and repayable on demand. The balance of time, call and notice deposits is interest bearing ranging from 0.0005% to 0.155% (2020: 0.05% to 1.40%) with maturity from within one month to three months.

The transactions were carried out on terms similar to those applicable to transactions with unrelated parties.

The Bank had issued letters of guarantee, majority to utility companies in lieu of deposits amounting to HK\$3,490,000 (2020: HK\$3,490,000) for a company connected with directors of the Bank.

Key management compensation

	<u>2021</u> HK\$	<u>2020</u> HK\$
Salaries and allowances (including directors' fees)	6,271,780	6,327,619
Long services payment	3,375,000	-

There was no sign-on awards and severance payments provided during the year ended 31 December 2021 (2020: HK\$Nil).

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20. OFF-BALANCE SHEET EXPOSURES

At the end of the reporting period, the Bank had the following outstanding contractual amounts of contingent liabilities and commitments:

	<u>2021</u> HK\$	<u>2020</u> HK\$
Direct credit substitutes	<u>3,490,000</u>	<u>3,490,000</u>

21. RETIREMENT BENEFITS PLAN

The Bank operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees. The assets of the Scheme are held separately from those of the Bank, in funds under the control of trustees. The Bank contributes 5% of relevant payroll costs to the Scheme, and the related contribution is matched by the respective employee.

Contributions payable to the Scheme by the Bank for the year amounting to HK\$208,783 (2020: HK\$219,957) had been charged to profit or loss.

22. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Bank had commitments for future minimum lease payments under non-cancellable operating leases for office premises which fall due as follows:

	<u>2021</u> HK\$	<u>2020</u> HK\$
Within one year	<u>738,540</u>	<u>672,100</u>

Operating lease payments represent rentals payable by the Bank for its office premises. The current leases will expire in November 2022 and rents are fixed for the lease period.

TAI YAU BANK, LIMITED

**Unaudited Supplementary Financial Information
For the year ended 31 December 2021**

TAI YAU BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2021

The unaudited supplementary financial information regarding corporate governance and other financial information disclosed pursuant to the Banking (Disclosures) Rules issued by the Hong Kong Monetary Authority is as follows:

1. CORPORATE GOVERNANCE

The Board of Directors is assisted by the Audit Committee, Remuneration Committee, Risk Committee, Nomination Committee, Executive Committee and Credit, Asset and Liability Management Committee in corporate governance matters.

The Audit Committee consists of three independent non-executive directors and one non-executive director who report regularly to the Board. It monitors compliance with policies approved by the Board and other internal and statutory regulations. It provides an oversight of the Bank's internal and external auditors and thereby assists the Board in providing independent review of the effectiveness of the financial reporting process and internal control systems of the Bank.

The Bank has established a Remuneration Committee with specific written Terms of Reference which deal clearly with its authority and duties. The Remuneration Committee consists of three independent non-executive directors and one non-executive director who report regularly to the Board. The Remuneration Committee is responsible for making recommendations to the Board on the Bank's policy, practices and structure for all remunerations of Directors and members of Senior Management, and determining their specific remuneration packages. The Bank will ensure that no Director or any of his associates is involved in deciding his own remuneration and at least an annual review of the Bank's remuneration system and its operation is carried out independently of management. During the year 2021, two meetings were held and attended by all committee members.

The Remuneration Committee is provided with sufficient resources to discharge its duties. The following is a summary of the work performed during the year:

- (i) Reviewed the remuneration systems and its operations of the Bank;
- (ii) Reviewed annual salary payment for the year;
- (iii) Reviewed the remuneration of senior management, key personnel and other staff; and
- (iv) Reviewed the remuneration policy.

The Bank has reviewed its remuneration policy for all employees of the Bank. The remuneration policy covers guidelines and procedures that are commensurate with the business of the Bank. It also supports the Bank's ethical values, objectives, strategies and control environment. The remuneration structure is designed to encourage employee behavior that supports the Bank's risk management framework and long-term financial soundness. There was no change to our remuneration policy during the year.

1. CORPORATE GOVERNANCE - continued

The remuneration package consists entirely of fixed salary payable in cash only. In considering the remuneration structure, the Bank has regarded to the seniority, role, responsibilities and activities of the employees and the need to promote behavior among employees that supports the Bank's risk management framework and long-term financial soundness.

A systematic role evaluation methodology is used to establish each employee's appropriate level of remuneration. By means of an annual/periodic performance review, the degree to which each employee is satisfying the requirements of the role and the degree to which established performance objectives have been achieved are to be assessed. The Bank will reward employees' achievement by directly linking pay to performance outcomes. Poor performance may affect the level of remuneration increment in the coming year.

The senior management consisting of ten persons and key personnel of four persons were paid with fixed remuneration in cash of HK\$4,540,580 and HK\$1,731,200 respectively during the year, totalling HK\$6,271,780 (2020: HK\$6,327,619). Except for long services payment HK\$3,375,000, we did not provide other form of remuneration including guaranteed bonuses, sign-on awards and severance payments during the year.

The Risk Committee stands at the highest level of the Bank's risk governance structure under the Board. It consists of three independent non-executive directors and one non-executive director. The Risk Committee provides direct oversight over the formulation of the Bank's risk appetite and ensures that the risk appetite is reflected in the policies and procedures. The Risk Committee also regularly reviews the Bank's risk management framework and ensures that all important risk-related tasks are performed according to established policies with appropriate resources.

The Nomination Committee is responsible for recommending to the Board on relevant matters relating to identify, select, nominate and recommend suitable individuals to the Board for directorships and senior management positions. The Nomination Committee also performs evaluation of the Board performance and Directors' contribution to the effectiveness of the Board.

The Nomination Committee comprises four members and three of them are independent non-executive directors and one non-executive director.

The Executive Committee consists of at least three members of the Board including the Chairman and one Executive Director. The Committee ensures the continuity in the management of the business and affairs of the Bank and carries the full power and authority of the Board on matters requiring urgent approval or other action of the Board in between board meetings.

The Credit, Asset and Liabilities Management Committee comprises the Managing Director, Alternative Chief Executive, the General Manager, the Manager, the Treasurer and the Heads of Accounts and Operations. The Committee is established to implement and maintain the overall risk management framework relating to credit, liquidity positions, cash flows, maturities, interest rate as well as exchange rate trends and compliance functions.

The directors of the Bank are of the opinion that the Bank has complied with the Supervisory Policy Manual "Corporate Governance of Locally Incorporated AIs" issued by the Hong Kong Monetary Authority.

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2. SEGMENTAL INFORMATION

(a) By geographical area

All the business operations of the Bank are in Hong Kong.

(b) By class of business

The Bank operates predominantly in the commercial banking business.

(c) Advances to customers - by industry sectors

The information concerning advances to customers by industry sectors has been classified according to the usage of the loan and is stated gross of any provisions.

	<u>2021</u> HK\$	<u>2020</u> HK\$
Loans for use in Hong Kong		
Individuals - other private purposes	732,000	1,051,000

The loan borrowers are predominantly located in Hong Kong.

3. OTHER FINANCIAL INFORMATION

(a) Liquidity position

The average liquidity maintenance ratio is the simple average of each calendar month's average liquidity maintenance ratio. Each monthly average liquidity maintenance ratio is calculated as the ratio of the average liquefiable assets to the average qualifying liabilities after relevant deductions in accordance with the Banking (Liquidity) Rules.

	<u>2021</u> %	<u>2020</u> %
Average liquidity maintenance ratio for the year	100.96	107.63

3. OTHER FINANCIAL INFORMATION - continued

(b) Capital adequacy

Capital adequacy ratios were calculated on a solo basis, in accordance with the Banking (Capital) Rules (the "Capital Rules") issued by the HKMA. The ratios were compiled in accordance with the amended Capital Rules for the implementation of the "Basel III" capital accord. The Bank has adopted the basic approach for the calculation of the risk-weighted assets for credit risk and the basic indicator approach for the calculation of operational risk.

	<u>2021</u> %	<u>2020</u> %
Total capital ratio	218.07	197.92
Tier 1 capital ratio	217.90	197.90
Common Equity Tier 1 capital ratio	217.90	197.90

The detailed disclosures required by the Banking (Disclosure) Rules will be disclosed under "Regulatory Disclosures" on the website of the Bank (www.tybhk.com.hk).

(c) Leverage ratio

The bank is required under the Banking (Disclosure) Rules to disclose its leverage ratio. Leverage ratio was calculated on a solo basis, in accordance with the Capital Rules issued by the HKMA.

	<u>31.12.2021</u> %	<u>31.12.2020</u> %
Leverage ratio	38.66	37.01

The detailed disclosures can be viewed under "Regulatory Disclosures" on the website of the Bank (www.tybhk.com.hk).

(d) Capital conservation buffer ratio

The Capital conservation buffer ratio for calculating the Bank's buffer level is 2.5% as at 31 December 2021 (2020: 2.5%) in accordance with the Banking (Capital) Rules.

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3. OTHER FINANCIAL INFORMATION - continued

(e) Countercyclical capital buffer ratio

The countercyclical capital buffer ratio was compiled in accordance with the Banking (Capital) Rules.

	<u>31.12.2021</u>	<u>31.12.2020</u>
	%	%
Countercyclical capital buffer ratio	<u>0.997</u>	<u>1.007</u>

The detailed disclosures can be viewed under "Regulatory Disclosures" on the website of the Bank (www.tybhk.com.hk).

(f) Capital charge for operational risk

The capital charge for operational risk calculated in accordance with the basic indicator approach at the end of the reporting period is:

	<u>2021</u>	<u>2020</u>
	HK\$'000	HK\$'000
Capital charge for operational risk	<u>2,898</u>	<u>4,244</u>

4. OPERATIONAL RISK

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud, or inadequate internal controls and procedures.

Risk management is carried out by the Risk Committee under the policies approved by the Board of Directors to manage operational risks through proper human resources policies, delegation of authorities, segregation of duties, and timely and accurate management information.

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

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5. INTERNATIONAL CLAIMS

The information of international claims discloses exposures to counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. Only countries constituting 10% or more of the aggregated international claims are disclosed.

	<u>Banks</u> HK\$'000
<u>As at 31 December 2021</u>	
Developed countries	353,398
- of which: Japan	345,061
Offshore centres	1,124,874
- of which: Hong Kong	1,124,874
Developing Asia and Pacific	578,649
- of which: China	392,887
Taiwan	185,762
<u>As at 31 December 2020</u>	
Developed countries	599,063
- of which: Japan	590,310
Offshore centres	184,002
- of which: Hong Kong	184,002
Developing Asia and Pacific	674,211
- of which: China	587,016
Taiwan	87,195

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6. CURRENCY RISK

Foreign currency exposure arising from non-trading and structural positions which constitute 10% or more of the total net position in all foreign currencies are as follows:

	<u>At 31 December 2021</u> (Equivalent in HK\$)			<u>Total</u>
	<u>USD</u>	<u>GBP</u>	<u>CAD</u>	
Spot assets	43,690,428	92,920,596	8,435,570	145,046,594
Spot liabilities	(32,465,327)	(90,654,559)	(7,109,818)	(130,229,704)
Net long position	<u>11,225,101</u>	<u>2,266,037</u>	<u>1,325,752</u>	<u>14,816,890</u>
Net structural position	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	<u>At 31 December 2020</u> (Equivalent in HK\$)			<u>Total</u>
	<u>USD</u>	<u>GBP</u>	<u>CAD</u>	
Spot assets	45,511,137	176,898,393	8,536,812	230,946,342
Spot liabilities	(32,430,065)	(174,443,926)	(7,062,601)	(213,936,592)
Net long position	<u>13,081,072</u>	<u>2,454,467</u>	<u>1,474,211</u>	<u>17,009,750</u>
Net structural position	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

7. OVERDUE AND RESCHEDULED LOANS AND OTHER ASSETS

As at the end of the reporting period, the Bank had no overdue or rescheduled loans and other assets.

8. MAINLAND ACTIVITIES

As at the end of the reporting period, the Bank had no non-bank exposures in the Mainland.

9. COMPLIANCE WITH DISCLOSURE REQUIREMENTS

In preparing the financial statements for the year ended 31 December 2021, the Bank has fully complied with the requirements set out in the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority.