



INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021 (unaudited)

The directors of Tai Yau Bank Limited (the “Bank”) are pleased to announce the unaudited results of the Bank for the six months ended 30 June 2021.

A. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | <u>NOTES</u> | 6 months ended <u>30/06/2021</u> HK\$ (Unaudited) | 6 months ended <u>30/06/2020</u> HK\$ (Unaudited) |
|---|--------------|--|--|
| Interest income | 3 | 1,942,991 | 18,273,549 |
| Interest expense | 4 | (334,719) | (4,496,614) |
| Net interest income | | 1,608,272 | 13,776,935 |
| Other operating income | 5 | 346,326 | 23,276 |
| Operating income | | 1,954,598 | 13,800,211 |
| Operating expenses | 6 | (7,451,259) | (8,344,177) |
| Impairment write-back / (losses) | | 63,578 | (70,850) |
| (Loss) / profit before taxation | | (5,433,083) | 5,385,184 |
| Income tax expense | 7 | - | (888,000) |
| (Loss) / profit and other comprehensive income for the period | | <u>(5,433,083)</u> | <u>4,497,184</u> |
| Interim dividend | | - | - |

B. STATEMENT OF FINANCIAL POSITION

| | | <u>At 30/06/2021</u> HK\$ (Unaudited) | <u>At 31/12/2020</u> HK\$ (Audited) |
|---|----|---|---|
| ASSETS | | | |
| Cash and balances with banks | 8 | 198,696,610 | 448,682,362 |
| Placements with banks | 8 | 1,872,614,198 | 1,730,555,981 |
| Advances to customers and other accounts receivable | 9 | 1,524,796 | 2,111,278 |
| Prepayment | | 992,401 | 75,365 |
| Tax recoverable | | 3,110,831 | 3,110,831 |
| Financial assets at fair value through profit or loss | 10 | 3,400,000 | 3,400,000 |
| Equipment and leasehold improvements | 11 | 169,397 | 348,493 |
| Intangible asset | | 210,000 | 210,000 |
| Deferred tax assets | | 245,394 | 245,394 |
| TOTAL ASSETS | | <u>2,080,963,627</u> | <u>2,188,739,704</u> |
| LIABILITIES | | | |
| Deposits from customers | 12 | 1,269,851,882 | 1,373,690,499 |
| Other accounts payable and provisions | 13 | 4,861,355 | 3,365,732 |
| | | <u>1,274,713,237</u> | <u>1,377,056,231</u> |
| CAPITAL RESOURCES | | | |
| Share capital | | 300,000,000 | 300,000,000 |
| Reserves | | 506,250,390 | 511,683,473 |
| SHAREHOLDERS' FUNDS | | <u>806,250,390</u> | <u>811,683,473</u> |
| TOTAL LIABILITIES AND CAPITAL RESOURCES | | <u>2,080,963,627</u> | <u>2,188,739,704</u> |



C. STATEMENT OF CASH FLOWS

| | 6 months ended <u>30/06/2021</u> HK\$ (Unaudited) | 6 months ended <u>30/06/2020</u> HK\$ (Unaudited) |
|---|--|--|
| OPERATING ACTIVITIES | | |
| (Loss) / profit before taxation | (5,433,083) | 5,385,184 |
| Adjustments for: | | |
| Interest income | (1,942,991) | (18,273,549) |
| Interest expense | 334,719 | 4,496,614 |
| Depreciation expenses | 179,096 | 181,318 |
| Impairment write-back / (losses) | (63,578) | 70,850 |
| Operating cash flows before movements in working capital | (6,925,837) | (8,139,583) |
| (Increase) decrease in placements with banks within one month with original maturity more than three months | (45,940,633) | 361,895,504 |
| Decrease (increase) in placements with banks with original maturity more than three months | 56,385,028 | (312,442,922) |
| Decrease in advances to customers | 174,500 | 173,500 |
| (Increase) decrease in prepayment | (917,036) | 31,183 |
| (Decrease) in deposits from customers | (103,838,617) | (343,539,869) |
| Increase in other accounts payable | 1,589,368 | 7,776,946 |
| Cash (used in) operations | (99,473,227) | (294,245,241) |
| Interest received | 2,357,752 | 21,614,600 |
| Interest paid | (428,464) | (4,948,509) |
| NET CASH (USED IN) OPERATING ACTIVITIES | <u>(97,543,939)</u> | <u>(277,579,150)</u> |
| INVESTING ACTIVITIES | | |
| Purchase of equipment | - | (80,028) |
| NET (DECREASE) IN CASH AND CASH EQUIVALENTS | <u>(97,543,939)</u> | <u>(277,659,178)</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 30 JUNE | <u><u>1,259,917,464</u></u> | <u><u>1,466,679,707</u></u> |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and balances with banks | 198,716,494 | 364,053,452 |
| Placements with banks with original maturity less than three months | 1,061,200,970 | 1,102,626,255 |
| | <u><u>1,259,917,464</u></u> | <u><u>1,466,679,707</u></u> |

D. STATEMENT OF CHANGES IN EQUITY

| | Share capital HK\$ | Retained profits HK\$ | General reserve HK\$ | Regulatory reserve HK\$ | Capital reserve HK\$ | Total HK\$ |
|--|--------------------------|-----------------------------|----------------------------|-------------------------------|----------------------------|--------------------|
| 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 period | - | (5,433,083) | - | - | - | (5,433,083) |
| At 30 June 2021 (Unaudited) | <u>300,000,000</u> | <u>454,693,331</u> | <u>46,000,000</u> | <u>50,000</u> | <u>5,507,059</u> | <u>806,250,390</u> |
| 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 for 2019 | - | (1,500,000) | - | - | - | (1,500,000) |
| Profit and other comprehensive income for the period | - | 4,497,184 | - | - | - | 4,497,184 |
| At 30 June 2020 (Unaudited) | <u>300,000,000</u> | <u>463,222,358</u> | <u>46,000,000</u> | <u>50,000</u> | <u>5,507,059</u> | <u>814,779,417</u> |

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 transfer to retained profits in 2020 was per requirement from HKMA.

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



NOTES TO THE INTERIM FINANCIAL STATEMENTS

Notes:

1. The interim results are prepared on a basis consistent with the accounting policies adopted in the 2020 annual financial statements.

2. STATEMENT OF COMPLIANCE

In preparing the interim results for the period ended 30 June 2021, the Bank has fully complied with the requirements set out in the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority.

3. INTEREST INCOME

| | 6 months ended <u>30/06/2021</u> HK\$ | 6 months ended <u>30/06/2020</u> HK\$ |
|------------------------------------|---|---|
| Interests on placements with banks | 1,942,760 | 18,272,964 |
| Interests on advances to customers | 231 | 585 |
| | <u>1,942,991</u> | <u>18,273,549</u> |

4. INTEREST EXPENSE

| | 6 months ended <u>30/06/2021</u> HK\$ | 6 months ended <u>30/06/2020</u> HK\$ |
|--------------------------------------|---|---|
| Interests on deposits from customers | <u>334,719</u> | <u>4,496,614</u> |

5. OTHER OPERATING INCOME

| | 6 months ended <u>30/06/2021</u> HK\$ | 6 months ended <u>30/06/2020</u> HK\$ |
|--|---|---|
| Fees and commission income | 20,980 | 20,754 |
| Net exchange gain arising from foreign currencies position | 321,948 | - |
| Other income | 3,398 | 2,522 |
| | <u>346,326</u> | <u>23,276</u> |

6. OPERATING EXPENSES

| | 6 months ended <u>30/06/2021</u> HK\$ | 6 months ended <u>30/06/2020</u> HK\$ |
|--|---|---|
| Depreciation of equipment | 179,096 | 181,319 |
| Directors' emoluments | | |
| - fees | 600,000 | 600,000 |
| - other emoluments | 665,000 | 570,000 |
| Other operating expenses | 2,077,737 | 1,996,531 |
| Operating lease payments | 400,278 | 682,158 |
| Net exchange loss arising from foreign currencies position | - | 210,206 |
| Staff costs | | |
| - salaries and bonus | 3,419,900 | 3,993,624 |
| - contribution to Mandatory Provident Fund | 109,248 | 110,339 |
| | <u>7,451,259</u> | <u>8,344,177</u> |

7. INCOME TAX EXPENSE

| | 6 months ended <u>30/06/2021</u> HK\$ | 6 months ended <u>30/06/2020</u> HK\$ |
|-----------------------|---|---|
| Hong Kong Profits Tax | | |
| - Current period | <u>-</u> | <u>888,000</u> |

The applicable Hong Kong profits tax rate is 16.5% (2020: 16.5%). No provision for Hong Kong Profits tax has been made for the six months end 30 June 2021 as the Bank had no estimated assessable profits for the period.



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8. CASH AND BALANCES AND PLACEMENTS WITH BANKS

| | <u>At 30/06/2021</u> HK\$ | <u>At 31/12/2020</u> HK\$ |
|--|------------------------------|------------------------------|
| At amortised cost | | |
| Cash and balances with banks | | |
| - Cash | 1,878,885 | 1,911,004 |
| - Due from Hong Kong Monetary Authority ("HKMA") - on demand | 183,956,268 | 434,001,385 |
| - Interbank Clearing Account | - | 144,819 |
| - Due from foreign banks - on demand | 9,970,626 | 9,805,092 |
| - Due from local banks - on demand | 2,910,715 | 2,865,080 |
| Less: Impairment allowances - Stage 1 | <u>(19,884)</u> | <u>(45,018)</u> |
| | <u>198,696,610</u> | <u>448,682,362</u> |
| Placements with banks maturing | | |
| - within 1 month | 669,159,384 | 407,203,858 |
| - between 1-3 months | 938,988,219 | 1,108,921,193 |
| - between 3-6 months | 215,000,000 | 165,000,000 |
| - between 6-12 months | 50,000,000 | 50,000,000 |
| Less: Impairment allowances - Stage 1 | <u>(533,405)</u> | <u>(569,070)</u> |
| | <u>1,872,614,198</u> | <u>1,730,555,981</u> |
| Total | <u><u>2,071,310,808</u></u> | <u><u>2,179,238,343</u></u> |

9. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS RECEIVABLE

| | <u>At 30/06/2021</u> HK\$ | <u>At 31/12/2020</u> HK\$ |
|---|------------------------------|------------------------------|
| The advances to customers and other accounts receivable comprise: | | |
| Advances to staff | 876,500 | 1,051,000 |
| Less: Impairment allowance - Stage 1 | <u>(6,547)</u> | <u>(9,326)</u> |
| | 869,953 | 1,041,674 |
| Interest receivable | 654,843 | 1,069,604 |
| | <u>1,524,796</u> | <u>2,111,278</u> |

There was no impairment loan for the period ended 30 June 2021 and 31 December 2020.

As at 30 June 2021 and 31 December 2020, there were no overdue or rescheduled assets as per Banking (Disclosure) Rules.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | <u>At 30/06/2021</u> HK\$ | <u>At 31/12/2020</u> HK\$ |
|---|------------------------------|------------------------------|
| Unlisted securities: | | |
| - club membership (financial assets at fair value through profit or loss) | <u>3,400,000</u> | <u>3,400,000</u> |

The unlisted securities is issued by a corporate entity in Hong Kong. As at 30 June 2021, the fair value of club membership remained unchanged with reference to the quote from the club entity.



11. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

| | <u>Leasehold</u> | | |
|---------------------------------|---------------------|------------------|------------------|
| | <u>Improvements</u> | <u>Equipment</u> | <u>Total</u> |
| | HK\$ | HK\$ | HK\$ |
| COST | | | |
| At 1 January 2020 | 1,472,938 | 1,813,499 | 3,286,437 |
| Additions | - | - | - |
| At 31 December 2020 | <u>1,472,938</u> | <u>1,813,499</u> | <u>3,286,437</u> |
| Additions | - | - | - |
| At 30 June 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 | - | 179,096 | 179,096 |
| At 30 June 2021 | <u>1,472,938</u> | <u>1,644,102</u> | <u>3,117,040</u> |
| CARRYING AMOUNT | | | |
| At 30 June 2021 | <u>-</u> | <u>169,397</u> | <u>169,397</u> |
| At 31 December 2020 | <u>-</u> | <u>348,493</u> | <u>348,493</u> |

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

12. DEPOSITS FROM CUSTOMERS

| | <u>At 30/06/2021</u> | <u>At 31/12/2020</u> |
|--------------------------------|----------------------|----------------------|
| | HK\$ | HK\$ |
| Current accounts | 84,182,183 | 88,818,658 |
| Savings deposits | 449,123,806 | 398,770,283 |
| Time, call and notice deposits | 736,545,893 | 886,101,558 |
| | <u>1,269,851,882</u> | <u>1,373,690,499</u> |

13. OTHER ACCOUNTS PAYABLE AND PROVISIONS

| | <u>At 30/06/2021</u> | <u>At 31/12/2020</u> |
|---|----------------------|----------------------|
| | HK\$ | HK\$ |
| Interests payable to time, call and notice deposits | 31,196 | 124,940 |
| Provision for long service payment | 1,441,633 | 1,441,633 |
| Other accounts payable: | | |
| - Accounts payable | 35,303 | 1,490,159 |
| - Cashier orders | 1,483,295 | 285,598 |
| - Gift Cheques | 14,500 | 14,500 |
| - Others | 1,855,428 | 8,902 |
| | <u>3,388,526</u> | <u>1,799,159</u> |
| | <u>4,861,355</u> | <u>3,365,732</u> |



E. SUPPLEMENTARY FINANCIAL INFORMATION

(1) SEGMENTAL AND SECTOR 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 at gross amount. These loans are not covered by any collateral or other security.

| | <u>At 30/06/2021</u> | <u>At 31/12/2020</u> |
|--------------------------------------|----------------------|----------------------|
| | HK\$ | HK\$ |
| Loans for use in Hong Kong | | |
| Individuals - other private purposes | 876,500 | 1,051,000 |

The loan borrowers are located in Hong Kong.

(2) OFF-BALANCE SHEET EXPOSURES

The Bank had the following outstanding contractual amounts of contingent liabilities and commitments:

| | <u>At 30/06/2021</u> | <u>At 31/12/2020</u> |
|---------------------------|----------------------|----------------------|
| | HK\$ | HK\$ |
| Direct credit substitutes | 3,490,000 | 3,490,000 |

As at 30 June 2021 and 31 December 2020, there were no credit risk weighted amount of contingent liabilities and commitments.

(3) 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 reviews the external auditors' independence, objectivity, and effectiveness of the audit process according to the applicable standards. It also oversees the work and findings of the internal 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 deals 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 policies, practices and structure for all remunerations of Directors and members of Senior Management. The Bank will ensure that no Directors or any of their associates are involved in deciding their own remuneration and at least one annual review of the Bank's remuneration system and its operation is carried out independently of management.

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 oversees the formulation of the Bank's risk appetite and is reflected in the policies and procedures. The Risk Committee also regularly reviews the Bank's risk management framework to make sure that all important risk-related tasks are performed according to established policies with appropriate resources.



The Nomination Committee recommends to the Board on relevant matters relating to identification, selection and nomination of suitable individuals to the Board for directorships and senior management positions. The Nomination Committee also performs evaluation of the Board's performance and Directors' contribution to the effectiveness of the Board. The Nomination Committee comprises three 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, the General Manager and all department heads. 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.

(4) QUALITATIVE INFORMATION ON MANAGEMENT OF RISK

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 so as to minimise the potential adverse effects on the Bank's financial performance.

Hence, 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 keep up with the changes in markets, products and emerging best practices.

Risk management is carried out by the Risk Committee under the 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 and 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 pricing risk.

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 is from money market placement and therefore credit risk is a principal risk. 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 mitigation 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.



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- 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.
- 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 ensures that the established controls and procedures are adequately designed and implemented.

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 monitors the Bank's liquidity position through periodic review of the statutory liquidity maintenance ratio, the maturity profile of assets and liabilities and loan-to-deposit ratio. Liquidity policy is monitored by management and reviewed regularly by the Risk Committee and Board of Directors of the Bank. The Bank maintains a conservative level of liquid funds on a daily basis so that it is able to meet its obligations when they fall due in the normal course of business and deals with any funding crises that may arise. Limits are set on the minimum level of funds to meet all the calls on cash resources such as overnight deposits, current accounts and the minimum level of inter-bank and other borrowing facilities that should be in place to meet the unexpected liquidity demand.

The Bank's management also sets internal limits in respect of the daily and monthly average liquidity maintenance ratios. The Accounts Department monitors these ratios and, where a liquidity position falls under the internal limits, informs the management that decides the appropriate corrective actions to be taken.

Market risk

Market risk is the risk arising from adverse movements in market factors such as interest rates, foreign exchange, equity price, debt security prices and commodity price that result in profits or losses. 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.

Management of market risk

The aim in managing the market risk is to reduce the Bank's exposure to the volatility inherent in market factors. The Bank's market risk exposures mainly arise from the interest rate risk and foreign exchange 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 on the operation are assessed and managed under the supervision of the Risk Committee. The Bank has met all the de minimis 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.



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Interest rate risk

Interest rate risk is the risk resulting from adverse movements in interest rates that affect the earnings and economic value of the banking book positions. 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 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.

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.

(5) CURRENCY RISK

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

| | <u>At 30/6/2021</u> | | | |
|-------------------------|----------------------|------------------|------------------|-------------------|
| | (Equivalent in HK\$) | | | |
| | <u>USD</u> | <u>GBP</u> | <u>CAD</u> | <u>Total</u> |
| Spot assets | 44,586,823 | 94,839,602 | 8,703,742 | 148,130,167 |
| Spot liabilities | (32,450,763) | (92,538,779) | (7,272,057) | (132,261,599) |
| Net long position | <u>12,136,060</u> | <u>2,300,823</u> | <u>1,431,685</u> | <u>15,868,568</u> |
| Net structural position | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>At 31/12/2020</u> | | | |
| | (Equivalent in HK\$) | | | |
| | <u>USD</u> | <u>GBP</u> | <u>CAD</u> | <u>Total</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> |



(6) 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 30 June 2021</u> | |
| Developed countries | 813,694 |
| - of which: Japan | 610,070 |
| Canada | 195,471 |
| Offshore centres | 494,253 |
| - of which: Hong Kong | 494,253 |
| Developing Asia and Pacific | 578,737 |
| - of which: China | 292,275 |
| Taiwan | 186,459 |
| Malaysia | 100,003 |
| <u>As at 31 December 2020</u> | |
| Developed countries | 599,063 |
| - of which: Japan | 590,310 |
| Offshore centres (Restated) | 471,590 |
| - of which: Hong Kong (Restated) | 471,590 |
| Developing Asia and Pacific | 674,211 |
| - of which: China | 587,016 |
| Taiwan | 87,195 |

(7) 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.

| | 6 months ended <u>30/06/2021</u> | 6 months ended <u>30/06/2020</u> |
|--|-------------------------------------|-------------------------------------|
| | % | % |
| Average liquidity maintenance ratio for the period | <u>106.01</u> | <u>114.54</u> |

(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>At 30/6/2021</u> | <u>At 31/12/2020</u> |
|------------------------------------|---------------------|----------------------|
| | % | % |
| Total capital ratio | <u>186.70</u> | <u>197.92</u> |
| Tier 1 capital ratio | <u>186.69</u> | <u>197.90</u> |
| Common Equity Tier 1 capital ratio | <u>186.69</u> | <u>197.90</u> |

For detailed disclosures required by the Banking (Disclosure) Rules, please refer to the "Regulatory Disclosures" on the website of the Bank (www.tybhk.com.hk).



TAI YAU BANK, LIMITED
(incorporated in Hong Kong with limited liability)

(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>At 30/6/2021</u> | <u>At 31/12/2020</u> |
|----------------|---------------------|----------------------|
| | % | % |
| Leverage ratio | <u>38.66</u> | <u>37.01</u> |

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 in accordance with the Capital Rules.

| | <u>At 30/6/2021</u> | <u>At 31/12/2020</u> |
|-----------------------------------|---------------------|----------------------|
| | % | % |
| Capital conservation buffer ratio | <u>2.50</u> | <u>2.50</u> |

(e) Countercyclical capital buffer ratio

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

| | <u>At 30/6/2021</u> | <u>At 31/12/2020</u> |
|--------------------------------------|---------------------|----------------------|
| | % | % |
| Countercyclical capital buffer ratio | <u>0.99</u> | <u>1.01</u> |

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

(8) MAINLAND ACTIVITIES

As at 30 June 2021 and 31 December 2020, the Bank had no non-bank exposures in the Mainland.

(9) REVIEW AND PROSPECTS

Money market placement business is the main source of income for the Bank. In the first six months of 2021, owing to extremely low interest rates, the Bank's net interest income was HK\$1.6MN as compared to HK\$13.8MN same time last year. Although we have managed our operating expenses to be lower than those of last year's, the Bank still reported a net loss of HK\$5.4MN as compared to a profit before tax of HK\$4.5MN for the same period last year. The net interest margin was 0.19% (30 June 2020: 1.28%) showing a decrease of 85% from last year's. Return on average total assets is -0.51% (31 December 2020: 0.06%). Return on equities is -1.34% (31 December 2020: 0.17%).

Apart from the financial and real estates industries, Hong Kong's economy is heavily dependent on tourism which, in the mist of COVID-19 is yet to wait for recovery. As the world is struggling for the resurgence of the flagging economy under the endless COVID-19 cases, coupled with the frosty US-China tensions and hence the continuous low interest rate trends, the Bank is facing a gloomy result for the remaining six months. However, in the long run, the Bank believes the economy will be re-bounced for sustainable growth and will show increasing demand of money market placement again.

By order of the Board
Ko, Arthur Sai Chun
Managing Director & Chief Executive
Hong Kong 21 September 2021