

TAI SANG BANK LIMITED

(incorporated in Hong Kong with limited liability)

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2020

TAI SANG BANK LIMITED

(incorporated in Hong Kong with limited liability)

DIRECTORS' REPORT

The directors of Tai Sang Bank Limited (the "Bank") submit their report together with the audited consolidated financial statements for the year ended 31 December 2020.

Principal activities

The principal activities of the Bank are commercial banking and related financial services and property investment and management. The principal activities of the Bank's subsidiaries are shown in note 13 to the consolidated financial statements.

Results and appropriations

The results of the Bank and its subsidiaries (collectively the "Group") for the year ended 31 December 2020 are set out in the consolidated statement of comprehensive income on page 9.

The directors do not recommend the payment of a dividend.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$Nil (2019: HK\$10,000).

Share issued in the year

For the year ended 31 December 2020, the Bank has not issued any new shares. Details of the share capital are set out in note 20 to the consolidated financial statements.

Equity-linked agreements

For the year ended 31 December 2020, the Bank has not entered into any equity-linked agreement.

Directors

(a) Directors of the Bank

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

Mr. Patrick Ma Ching Hang, BBS, JP	(Chairman)
Mr. Ma Ching Tsun	
Mr. Ma Ching Yuk, SBS, JP	
Mr. Alfred Ma Ching Kuen	
Mr. Philip Ma Ching Yeung	
Mr. Ma Ching Nam BBS, CStJ, JP	
Ms. Katy Ma Ching Man	(Alternate director to Mr Alfred Ma Ching Kuen)
Ms. Amy Ma Ching Sau	(Alternate director to Mr Philip Ma Ching Yeung)
Mr. Ma Ching Cheng	(Alternate director to Mr Ma Ching Nam)
Mr. Thomas Yiu Kei Chung ¹	
Mr. Aaron Tan Leng Cheng ¹	
Mr. Stephen Chung Kong Fei ¹	

¹ Independent non-executive director

TAI SANG BANK LIMITED

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DIRECTORS' REPORT (CONTINUED)**Directors (Continued)**

In accordance with Article 98 of the Bank's Articles of Association, all ordinary directors shall retire in each succeeding two years. All ordinary directors shall retire in the forthcoming annual general meeting but, being eligible, offer themselves for re-election.

(b) Directors of the Bank's subsidiaries

During the year and up to the date of this report, Mr. Ma Ching Yuk, Mr. Alfred Ma Ching Kuen, Mr. Patrick Ma Ching Hang, Mr. Philip Ma Ching Yeung and Mr. Ma Ching Tsun are also directors in subsidiaries of the Bank. There are no other directors of the subsidiaries of the Bank.

Directors' material interests in transactions, arrangements and contracts that are significant in relation to the Group's business

Except for the loans disclosed in note 23 to the consolidated financial statements, no other transactions, arrangements and contracts of significance in relation to the Group's business to which the Bank's subsidiaries 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.

Directors' interests in the shares, underlying shares and debentures of the Bank or any specified undertaking of the Bank

At no time during the year was the Bank, its subsidiaries or its other associated corporations a party to any arrangement to enable the directors and chief executives of the Bank (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Bank or its specified undertakings or other associated corporation.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Bank were entered into or existed during the year.

Business review

(a) Review of Business

The Hong Kong economy was hardly hit by the unprecedented COVID pandemic in 2020. The Group's pre-tax operating result before property revaluation and loss on disposal of property, plant and equipment recorded a small loss of HK\$0.13Mn, as compared to HK\$10.62Mn profit in 2019. The drop in profit for the year was mostly due to the 50% decrease in net interest income, caused by the significant fall in interest income earned from the interbank placement transactions as a result of the extremely low interbank interest rates.

Total customer deposits have decreased by 64% as a result of withdrawals made by connected depositors during the year. This factor has also contributed to the fall in interest income earned by the Group as the size of interest earning assets was reduced.

The other main sources of income of the Group like property rental income and rents from safe deposit boxes remained relatively stable, which recorded only a 3% decrease as compared to 2019. The Group has also suffered from a much lower share dividend income as most of the listed shares held by the Group significantly reduced or even cancelled their dividend payments during the year under the COVID pandemic environment.

TAI SANG BANK LIMITED

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DIRECTORS' REPORT (CONTINUED)**Business review (Continued)****(a) Review of Business (Continued)**

Operating expenses decreased by 2% as compared to 2019. The Group has applied and received subsidies, amounted to HK\$1.77Mn, under the Employment Support Scheme launched by the Hong Kong Government as part of its anti-epidemic financial support offered to employers in Hong Kong. Operating expenses shown have been netted by such subsidies received.

The property market experienced downturn during the second half of 2019 and has continued into 2020. The Group recorded an overall HK\$8Mn revaluation deficit on investment properties held during the year.

The level of loans and advances decreased by 1.6% while the amounts placed with interbank and with central bank, including the holding of exchange fund papers, decreased by 50.5% as compared to the end of 2019. The latter was mostly resulted from the much lower level of customers' deposits in 2020.

During the year, all relevant laws and regulations were complied with. The Group's conservative management was reflected in maintaining a Total Capital Ratio exceeding 103% and Liquidity Maintenance Ratio exceeding 81% as at the year end of 2020, which were substantially above the statutory minimum.

At the end of 2020, the total headcount was 30 and 4 for the Bank and its subsidiaries respectively. The Group operates in a single location and places a lot of emphasis on effective communications among management and staff. A culture of operational efficiency, risk mitigation and compliance has been built, and a sensible work-life balance for employees is promoted.

The Group observes a strict customer acceptance policy. While the aim is not to provide full range of banking services to satisfy all customer needs, the Group is committed to deliver products and services with quality and flexibility such that solid customer relationships are established and maintained.

The Group also supports the culture of environmental protection by promoting an environmental-friendly working environment.

(b) Principal Risks

The Group is exposed to various types of risks including credit risk, operational risk, liquidity risk, market risk, legal risk and strategic risk, details of which are carried in note 3 to the consolidated financial statements. Different Board committees, viz. Executive Committee, Credit Committee, Asset & Liability Committee, Audit Committee, Remuneration Committee, Nomination Committee and Risk Committee, are in place to oversee the various types of risks confronted by the Bank and give directions to management to control and mitigate these risks accordingly.

(c) Important Events and Future Development

For 2021, the Group aims for improving its profitability through possible expansion in the existing niche areas that the Group has been performing well and has good track records. During 2021, the Group will also benefit from the relocation of the Bank's back up site from a leased property to a property owned by the Group. The Group will continue its prudent management while not assuming undue risks for the sake of earnings

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DIRECTORS' REPORT (CONTINUED)**Permitted indemnity provisions**

At no time during the financial year and up to the date of this Directors' Report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Bank (whether made by the Bank or otherwise) or an associated company (if made by the Bank).

Compliance with the Banking (Disclosure) Rules

The Bank has complied with the requirements set out in the Banking (Disclosure) Rules under the Hong Kong Banking Ordinance.

Auditor

The consolidated financial statements of the Group have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment.

On behalf of the Board



Patrick Ma Ching Hang
Chairman

Hong Kong, 25 March 2021

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF TAI SANG BANK LIMITED**
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of Tai Sang Bank Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 8 to 81, which comprise:

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

Our opinion

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

Basis for Opinion

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

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

Independence

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

Other Information

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

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF TAI SANG BANK LIMITED**
(incorporated in Hong Kong with limited liability)

Other Information (Continued)

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.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF TAI SANG BANK LIMITED**
(incorporated in Hong Kong with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2021

TAI SANG BANK LIMITED

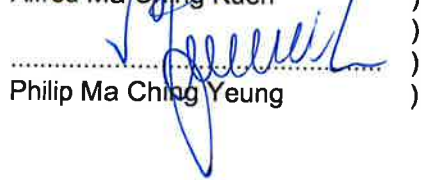
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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020**

	Note	31 December 2020 HK\$	31 December 2019 HK\$
Assets			
Cash and balances with banks	10	277,510,599	288,228,130
Placements with banks maturing between one and twelve months		180,000,000	332,892,861
Loans and advances to customers and other accounts	11	168,897,040	183,801,077
Investment securities measured at FVOCI	12	6,591,932	307,017,381
Property, plant and equipment	14	101,083,789	72,272,044
Investment properties	15	288,000,000	324,100,000
Right-of-use assets	16	156,783	344,922
Tax recoverable		204	105,576
Total assets		<u>1,022,240,347</u>	<u>1,508,761,991</u>
Liabilities			
Deposits from customers	17	270,041,632	752,141,745
Other liabilities and provisions	18	27,554,356	22,304,146
Deferred tax liabilities	19	11,282,089	7,493,314
Tax payable		87,897	-
Total liabilities		<u>308,965,974</u>	<u>781,939,205</u>
Equity			
Share capital	20	310,000,000	310,000,000
Reserves	21	403,274,373	416,822,786
Total equity		<u>713,274,373</u>	<u>726,822,786</u>
Total equity and liabilities		<u>1,022,240,347</u>	<u>1,508,761,991</u>

Approved and authorised for issue by the Board of Directors on 25 March 2021.


 Alfred Ma Ching Kuen


 Philip Ma Ching Yeung

Directors

The notes on pages 12 to 81 are an integral part of these consolidated financial statements.

TAI SANG BANK LIMITED

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Note	2020 HK\$	2019 HK\$
Interest income	5	12,661,093	24,566,491
Interest expense	5	(1,739,190)	(2,717,135)
Net interest income		10,921,903	21,849,356
Other operating income	6	14,256,112	14,663,703
Net operating income		25,178,015	36,513,059
Operating expenses	7	(25,307,228)	(25,895,384)
Operating (loss)/profit		(129,213)	10,617,675
Revaluation deficit on investment properties	15	(8,000,000)	(5,800,000)
Loss on disposal of property, plant and equipment		(14,064)	(2,058)
(Loss)/profit before income tax		(8,143,277)	4,815,617
Income tax expense	9	(3,876,460)	(1,222,864)
(Loss)/profit for the year attributable to equity holders		(12,019,737)	3,592,753
Other comprehensive loss:			
Items that will not be reclassified to profit or loss:			
Equity investment securities measured at fair value through other comprehensive income:			
Decrease in fair value during the year	21	(1,558,767)	(731,661)
		(1,558,767)	(731,661)
Items that will be reclassified to profit or loss:			
Debt investment securities measured at fair value through other comprehensive income:			
Decrease in fair value during the year		(30,414)	-
Transfer from investment revaluation reserve to statement of comprehensive income		60,505	-
		30,091	-
Total comprehensive (loss)/income for the year attributable to equity holders		(13,548,413)	2,861,092

The notes on pages 12 to 81 are an integral part of these consolidated financial statements.

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Note	Attributable to equity holders of the Bank			Total HK\$
		Share capital HK\$	Other reserves HK\$	Retained earnings HK\$	
Balance at 1 January 2020		310,000,000	5,070,878	411,751,908	726,822,786
Comprehensive loss					
Loss for the year		-	-	(12,019,737)	(12,019,737)
Other comprehensive loss					
Change in fair value of investment securities measured at FVOCI	21	-	(1,589,181)	-	(1,589,181)
Transfer from investment revaluation reserve to statement of comprehensive income		-	60,505	-	60,505
Total comprehensive loss		-	(1,528,676)	(12,019,737)	(13,548,413)
Transfer and appropriation					
Transfer from other properties revaluation reserve to retained earnings	21	-	(64,092)	64,092	-
Total transfer and appropriation		-	(64,092)	64,092	-
Balance at 31 December 2020		310,000,000	3,478,110	399,796,263	713,274,373
Balance at 1 January 2019		310,000,000	5,866,631	408,096,754	723,963,385
Change in accounting policy		-	-	(1,691)	(1,691)
Balance at 1 January 2019 (restated)		310,000,000	5,866,631	408,095,063	723,961,694
Comprehensive income					
Profit for the year		-	-	3,592,753	3,592,753
Other comprehensive income					
Change in fair value of investment securities measured at FVOCI	21	-	(731,661)	-	(731,661)
Total comprehensive income		-	(731,661)	3,592,753	2,861,092
Transfer and appropriation					
Transfer from other properties revaluation reserve to retained earnings	21	-	(64,092)	64,092	-
Total transfer and appropriation		-	(64,092)	64,092	-
Balance at 31 December 2019		310,000,000	5,070,878	411,751,908	726,822,786

The notes on pages 12 to 81 are an integral part of these consolidated financial statements.

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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Note	2020 HK\$	2019 HK\$
Net cash outflow from operating activities	22(a)	<u>(300,045,885)</u>	<u>(269,232,825)</u>
Investing activities			
Dividends received on equity investments measured at FVOCI	6	109,496	466,600
Purchase of property, plant and equipment		(2,195,600)	(1,017,349)
Proceeds from disposal of property, plant and equipment		-	41,200
Purchase of equity investments measured at FVOCI		<u>(10,437)</u>	<u>-</u>
Net cash outflow from investing activities		<u>(2,096,541)</u>	<u>(509,549)</u>
Financing activities			
Principal elements of lease liabilities		<u>(187,013)</u>	<u>(177,277)</u>
Net cash outflow from financing activities		<u>(187,013)</u>	<u>(177,277)</u>
Decrease in cash and cash equivalents		(302,329,439)	(269,919,651)
Cash and cash equivalents at 1 January		<u>759,840,038</u>	<u>1,029,759,689</u>
Cash and cash equivalents at 31 December	22(b)	<u><u>457,510,599</u></u>	<u><u>759,840,038</u></u>

The notes on pages 12 to 81 are an integral part of these consolidated financial statements.

TAI SANG BANK LIMITED

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

The principal activities of Tai Sang Bank Limited (the "Bank") and its subsidiaries (collectively the "Group") are the provision of banking and related financial services, and property investment and management.

The Bank is an authorized institution incorporated in Hong Kong. The address of its registered office is 130-132 Des Voeux Road Central, Hong Kong.

These consolidated financial statements are presented in units of Hong Kong dollars (HK\$), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2021.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Tai Sang Bank Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income and investment properties at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

2.1.1 Adoption of new HKFRS and amendments

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Definition of a Business - amendments to HKFRS 3
- Interest Rate Benchmark Reform - amendments to HKFRS 9, HKAS 39 and HKFRS 7
- Revised Conceptual Framework for Financial Reporting
- Annual Improvements to HKFRS Standards 2018-2020 Cycle

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 New and amended standards not yet adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting period and have not been early adopted by the Group. These standards and interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries made up to 31 December.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position (Note 27), the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.12). The results of subsidiaries are accounted by the Bank on the basis of dividend received and receivable. Dividend income from subsidiaries is recognised in the statement of comprehensive income when the right to receive payment is established.

There are no restrictions, or other major impediments on the transfer of funds or regulatory capital between the Group companies.

2.3 Interest income and expense

Interest income and expense are recognised in the consolidated statement of comprehensive income for all instruments measured at amortised cost and debt securities measured at fair value through other comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**2 Summary of significant accounting policies (Continued)****2.4 Fee and commission income and expense**

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognised on completion of the underlying transaction.

2.5 Financial assets**(i) Classification and subsequent measurement**

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

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

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

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

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 3.1.4. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment Income'. Interest income from these financial assets is included in 'Interest Income' using effective interest rate method.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**2 Summary of significant accounting policies (Continued)****2.5 Financial assets (Continued)****(i) Classification and subsequent measurement (Continued)**

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net Investment Income'. Interest income from these financial assets is included in 'Interest Income' using the effective interest rate method.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. An example is the liquidity portfolio of assets, which is held by the Group as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

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

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

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

Equity instruments

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**2 Summary of significant accounting policies (Continued)****2.5 Financial assets (Continued)****(i) Classification and subsequent measurement (Continued)**

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

Gains and losses on equity investments at FVPL are included in the 'Net Trading Income' line in the statement of profit or loss.

(ii) Impairment

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

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

(iii) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different of the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as profit share/ equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficult.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**2 Summary of significant accounting policies (Continued)****2.5 Financial assets (Continued)****(iii) Modification of loans (Continued)**

If the terms are substantially different, the Group derecognizes the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition of impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances whether the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

The impact of modifications of financial assets on the expected credit loss calculation is discussed in note 3.1.10.

(iv) Derecognition other than on a modification

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

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

- (a) has no obligation to make payments unless it collects equivalent amounts from the assets;
- (b) is prohibited from selling or pledging the assets; and
- (c) has an obligation to remit any cash it collects from the assets without material delay.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**2 Summary of significant accounting policies (Continued)****2.6 Financial liabilities****(i) Classification and subsequent measurement**

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

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

(ii) Derecognition

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**2 Summary of significant accounting policies (Continued)****2.7 Financial guarantee contracts and loan commitments**

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

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

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

Loan commitments provided by the Group are measured as the amount of loss allowance (calculated as described in note 3.1.4). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

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

2.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.9 Foreign currency translation**(a) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Bank's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**2 Summary of significant accounting policies (Continued)****2.9 Foreign currency translation (Continued)****(b) Transactions and balances (Continued)**

Changes in the fair value of monetary securities denominated in foreign currency and classified as FVOCI are analysed between translation differences resulting from changes in the amortised cost of the securities and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost are recognised in the consolidated statement of comprehensive income, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary items are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as FVOCI, are included in the investment revaluation reserve in equity.

2.10 Property, plant and equipment

Bank premises represent those properties held for own use and are treated as finance lease since the costs of land and building elements of the leasehold properties cannot be allocated reliably at the inception of the lease. Bank premises are stated at valuation made in prior years less accumulated depreciation charge and impairment losses.

On adoption of HKAS 16 entities that measured property, plant and equipment based on revaluation performed prior to 30 September 1995 were exempted from the requirement to make regular revaluations prospectively, provided that these entities did not measure their property, plant and equipment using the revaluation model subsequent to 1995.

Effective from 30 September 1995, no further revaluations of bank premises have been carried out. The Group has adopted the transitional provision in paragraph 80A of HKAS 16, which provides exemption from the need to make regular revaluation of bank premises.

The revalued amount made prior to 30 September 1995 became a deemed cost as the revaluation date for subsequent measurement under HKAS 16.

Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated statement of comprehensive income during the financial period in which they are incurred.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**2 Summary of significant accounting policies (Continued)****2.10 Property, plant and equipment (Continued)**

Bank premises	Bank premises are stated at cost less accumulated depreciation. Portion of the bank premises value attributable to the land element is depreciated over the lease term, while portion attributable to the building element is depreciated on a straight line basis over the remaining portion of the useful life.
Leasehold improvements	Remaining portion of the useful life of the bank premises.
Furniture, fixtures & equipment	Furniture, fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated at 10% per annum on a reducing balance basis after an initial provision of 20% on cost in the year of purchase.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount.

2.11 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment properties are measured at fair value assessed by professional valuers on the basis of open market value. If information of open market value is not available, alternative valuation methods are used such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with valuation standards on properties published by The Hong Kong Institute of Surveyors.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The item is stated at cost less impairment and is included in the carrying amount of investment properties. Once the item begins to generate economic benefits, it is then measured at fair value. All other repairs and maintenance costs are expensed in the statement of comprehensive income during the financial period in which they are incurred.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**2 Summary of significant accounting policies (Continued)****2.11 Investment properties (Continued)**

Any changes in fair value are recognised directly in the statement of comprehensive income.

If an investment property becomes owner-occupied, it is reclassified as premises, and its fair value at the date of reclassification becomes its cost for accounting purposes. If an item of premises becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in other comprehensive income as a revaluation of premises under HKAS 16 "Property, Plant and Equipment". However, if a fair value gain reverses a previous revaluation loss or impairment loss, the gain is recognised in the statement of comprehensive income up to the amount previously debited.

2.12 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, but are tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the country where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of bank premises and tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.13 Current and deferred income tax (Continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2.14 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

Group companies offer defined contribution mandatory provident funds to all eligible employees of the Group. The funds are provided through payments to trustee-administered funds.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(c) Long service payments

The Group's eligible employees who have completed a required number of years of service to the Group are eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment, provided that such termination meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.15 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if that party controls, jointly controls or has significant influence over the Group; is a member of the same financial reporting group, such as parents, subsidiaries and fellow subsidiaries; is an associate or a joint venture of the Group; is a key management personnel of the Group or parents, or where the Group and the party are subject to common control. Related parties may be individuals or entities.

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2.17 Cash and cash equivalents

Cash and cash equivalents include cash in hand, balances with banks and central bank, placements with banks and exchange fund papers with original maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.18 Government grants

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

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

Government grants relating to the employment subsidy are included in staff costs under operating expense, in which note 8 provides further information on how the Group accounts for government grants.

2.19 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. For leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and to treat these as a single lease component.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**2 Summary of significant accounting policies (Continued)****2.19 Leases (Continued)**

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on a index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Group under residual value guarantees
- The exercise price of a purchase option if the Group is reasonable certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received as a starting point, where possible, adjusted to reflect changes in financing conditions since the receipt of third party financing. Where recent third-party financing does not exist, the Group uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for the leases and makes adjustments for factors specific to the lease.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonable certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

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

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management

The Group'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. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

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

Risk management policies are approved by the Board of Directors. Financial risks are identified, evaluated and managed in close co-operation with the Group's operating units. The Board provides written policies or guidelines covering areas such as credit risk, interest rate risk and liquidity risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The major types of risk faced by the Bank are credit risk, liquidity risk, market risk and operational risks. Market risk includes currency risk, interest rate and other price risks.

3.1 Credit risk

Credit risk is the risk that a counterparty causes a financial loss to the Group by failing to discharge an obligation. Adverse changes in the economy, or in the health of a particular customer, could result in losses that are different from those provided for at the end of the reporting period. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. The credit risk management and control are performed by all responsible staff under close supervision by senior management.

3.1.1 Credit risk management

The Group manages concentrations of credit risk wherever they are identified - in particular, to individual counterparties and groups, and to industries. The Group controls the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a continuous basis and subject to periodic or ad hoc reviews, when considered necessary.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.1 Credit risk management (Continued)

(a) Collateral

The Group implements guidelines on the acceptability of specific classes of collateral. The principal collateral types for loans and advances are:

- Mortgages over residential and commercial properties;
- Charges over equities; and
- Pledges over deposits.

Loans and advances to customers are generally secured. In addition, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit - which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions - are secured by the underlying collaterals provided by the borrowers.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**3 Financial risk management (Continued)****3.1 Credit risk (Continued)****3.1.2 Maximum exposure to credit risk before collateral held or other credit enhancements****The Group**

Maximum exposure	2020 HK\$	2019 HK\$
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with banks and central bank	111,896,301	10,898,526
Placements with banks	342,354,898	607,169,434
Investment debt securities measured at FVOCI	-	298,877,119
Loans and advances to customers:		
Loans to individuals:		
- Overdrafts	5,394,856	4,791,334
- Mortgages	-	282,166
Loans to corporate entities:		
- Investment companies	151,680,068	154,333,955
- Small and medium size enterprises (SMEs)	6,672,563	6,999,966
Credit risk exposures relating to off-balance sheet items are as follows:		
- Loan commitments and other credit related liabilities	12,932,580	1,527,432
At 31 December	630,931,266	1,084,879,932

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2020 and 2019, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from its loan and advances portfolio based on the following:

- 100% of the loans and advances portfolio is categorised in the top grade of the internal rating system (2019: 100%);
- Mortgage loans and properties investment loans, which represent the majority of the loans and advances portfolio, are backed by collateral;
- 100% of the loans and advances portfolio is considered to be neither past due nor impaired (2019: 100%); and
- The Group has a stringent approval process in granting loans and advances.

Credit risk mitigation, collateral and other credit enhancements

The Group uses a variety of techniques to reduce the credit risk arising from its lending and money market activities. Enforceable legal documentation establishes the Group's direct, irrevocable and unconditional recourse to any collateral, security or other credit enhancements provided.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.2 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

Credit risk mitigation, collateral and other credit enhancements (Continued)

The table below describes the nature of collateral held and their financial effect by class of financial asset:

Balances and placements with banks	These exposures are generally considered to be low credit risk due to the nature of the counterparties. Collateral is generally not sought on these balances.
Balances with central bank	These exposures are the outstanding balances at the Hong Kong exchange fund settlement account with Hong Kong Monetary Authority, which are unsecured. They are considered to be of very low credit risk due to the nature of the counterparty.
Investment debt securities measured at FVOCI	These exposures comprise solely of investments in exchange fund bills issued by the Hong Kong government and are considered to be very low credit risk due to the nature of the issuer. Exchange fund bills are issued on unsecured basis.
Loans and advances	These exposures are secured, partially secured or unsecured depending on the type of collateral and type of facilities offered to customers. The major types of collateral taken include residential properties, other properties and shares. Personal guarantees are also obtained by the Group for credit enhancement. As at 31 December 2020, the collateral coverage of loans and advances to customers is 100% (2019: 100%).
Contingent liabilities and commitments	The components and nature of contingent liabilities and commitments are disclosed in Note 25. Regarding the commitments that are unconditionally cancellable without prior notice, the Group would withdraw the credit facilities extended to borrowers in case their credit quality deteriorates. Accordingly, these commitments do not expose the Group to significant credit risk. As at 31 December 2020, the collateral coverage of contingent liabilities and commitments is 100% (2019: 100%).

While the credit risk of balances with central bank and the investment debt securities measured at FVOCI are considered to be very low, as stated in the above analysis, the credit risk, expected credit loss measurement and loss allowances of loans and advances, contingent liabilities and commitments and balances and placements with banks are analysed in detail from note 3.1.3 to note 3.1.8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.3 Loans and advances and placements with banks

Loans and advances and placements with banks are summarised as follows:

The Group

	31 December 2020		31 December 2019	
	Loans and advances to customers HK\$	Placements with banks HK\$	Loans and advances to customers HK\$	Placements with banks HK\$
Neither past due nor impaired	163,747,487	342,354,898	166,407,421	607,169,434

There were no loans and advances and placements with banks that were past due but not impaired nor loans and advances that were impaired at 31 December 2020 and 2019. The credit quality of the portfolio of loans and advances and placements with banks that were neither past due nor impaired was of satisfactory grading by reference to the internal rating system adopted by the Group.

During the year, the Group did not obtain any assets by taking possession of collateral held as security (2019: Nil). The Group has no repossessed assets (2019: Nil) as at 31 December 2020.

During the year, the Group has allowed the rescheduling of repayment of principal of loans to a total book value of HK\$151,680,068 under the Pre-approved Principal Payment Holiday Scheme for Corporate Customers (the "Scheme") as advocated by the Hong Kong Monetary Authority as part of the financial assistance scheme for combatting COVID-19 detrimental impact on the Hong Kong economy. The Scheme was only offered to the Group's eligible corporate borrowers in Hong Kong that had annual sales turnover of HK\$800Mn or less and that had no outstanding loan payments overdue for more than 30 days. The deferral of principal payments was set for 12 months from 1 May 2020 until 30 April 2021. The modification of the cash flows of these rescheduled loans has resulted in immaterial differences in the gross carrying amount of each participated loan which has been presented as interest income in the statement of comprehensive income. All the rescheduled loans under the said Scheme are of performing credit grading under stage 1 of expected credit loss measurement.

3.1.4 Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with HKFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.4 Expected credit loss measurement (Continued)

The 'three-stage' model for impairment based on changes in credit quality under HKFRS 9 (other than purchased or originated credit-impaired financial assets) is summarized in the following table:

Stage 1	Stage 2	Stage 3
(initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

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

Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following qualitative or backstop criteria have been met:

Qualitative criteria:

For retail mortgages or loans, if the borrower meets one or more of the following criteria:

- In short-term forbearance
- Direct debit cancellation
- Extension to the terms granted
- Previous arrears within the last 12 months

For corporate lendings and treasury instruments, if the borrower is on the Watchlist and the lending meets one or more of the following criteria:

- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value which is expected to increase the risk of default
- Early signs of cashflow/liquidity problems such as delay in servicing of loans

Backstop

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The assessment of SICR incorporates forward-looking information and is performed at annual credit assessment of each loan/lending and at the end of financial year for all financial instruments held by the Group. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.5 Definition of default and credit-impaired assets

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

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

The borrower meets unlikelihood to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is insolvent
- There are cash flow difficulties experienced by the borrower
- The borrower is in breach of loan covenants or conditions
- The borrower is probable to initiate bankruptcy proceedings
- The borrower's competitive position has deteriorated
- The borrower is downgraded below investment grade level

The criteria listed above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected loss calculations.

3.1.6 Measuring ECL – Explanation of assessment process

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

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

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. These three components are multiplied together and discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.6 Measuring ECL – Explanation of assessment process (Continued)

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on each exposure from the point of initial recognition throughout the lifetime of each loan. The maturity profile is based on historical observed data and is estimated individually based on the Group's knowledge of each loan.

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

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary according to each loan exposure.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at each loan, which are influenced by collection strategies, including contracted debt sales and price.

3.1.7 ECL measurement

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each loan exposure.

As the Group's loan portfolio consists of limited number of borrowers that are of different nature and background, the economic variables and their associated impact on the PD, EAD and LGD of each exposure vary. Judgment on individual loans of such factors has been applied in this process. Forecasts of these economic variables are made by the Credit Department and approved by the Credit Committee. Each individual loan exposure is analysed based on the historical records and future outlooks as influenced by the projected economic factors, such as house price index, GDP, Interest rate trend and unemployment rate which are applicable to each exposure on a case by case basis.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes.

Maximum exposure to credit risk – Financial instruments subject to impairment

The following tables contain the analysis of the credit risk exposure of financial instruments for which are subject to ECL assessment. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.7 ECL measurement (Continued)

(a) Loans and advances to customers

2020					
	Stage 1	Stage 2	ECL staging	Stage 3	Purchased
	12-month	Lifetime	Lifetime	Lifetime	credit-
	ECL	ECL	ECL	ECL	impaired
	HK\$	HK\$	HK\$	HK\$	HK\$
Credit grade					
Performing	163,747,487	-	-	-	163,747,487
Gross carrying amount	163,747,487	-	-	-	163,747,487
ECL allowance	-	-	-	-	-
2019					
	Stage 1	Stage 2	ECL staging	Stage 3	Purchased
	12-month	Lifetime	Lifetime	Lifetime	credit-
	ECL	ECL	ECL	ECL	impaired
	HK\$	HK\$	HK\$	HK\$	HK\$
Credit grade					
Performing	166,407,421	-	-	-	166,407,421
Gross carrying amount	166,407,421	-	-	-	166,407,421
ECL allowance	-	-	-	-	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**3 Financial risk management (Continued)****3.1 Credit risk (Continued)****3.1.7 ECL measurement (Continued)****(b) Guarantees, contingent liabilities and loan commitments**

	2020				Total
	ECL staging				
	Stage 1	Stage 2	Stage 3	Purchased	
	12-month	Lifetime	Lifetime	credit-	
	ECL	ECL	ECL	impaired	
	HK\$	HK\$	HK\$	HK\$	HK\$
Credit grade					
Performing	12,932,580	-	-	-	12,932,580
Gross carrying amount	12,932,580	-	-	-	12,932,580
ECL allowance	-	-	-	-	-

	2019				Total
	ECL staging				
	Stage 1	Stage 2	Stage 3	Purchased	
	12-month	Lifetime	Lifetime	credit-	
	ECL	ECL	ECL	impaired	
	HK\$	HK\$	HK\$	HK\$	HK\$
Credit grade					
Performing	1,527,432	-	-	-	1,527,432
Gross carrying amount	1,527,432	-	-	-	1,527,432
ECL allowance	-	-	-	-	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.7 ECL measurement (Continued)

(c) Balances and placements with banks

	2020				
	ECL staging				Total
	Stage 1	Stage 2	Stage 3	Purchased	
	12-month ECL HK\$	Lifetime ECL HK\$	Lifetime ECL HK\$	credit- impaired HK\$	
Credit grade					
Performing	344,281,249	-	-	-	344,281,249
Gross carrying amount	344,281,249	-	-	-	344,281,249
ECL allowance	-	-	-	-	-

	2019				
	ECL staging				Total
	Stage 1	Stage 2	Stage 3	Purchased	
	12-month ECL HK\$	Lifetime ECL HK\$	Lifetime ECL HK\$	credit- impaired HK\$	
Credit grade					
Performing	610,256,156	-	-	-	610,256,156
Gross carrying amount	610,256,156	-	-	-	610,256,156
ECL allowance	-	-	-	-	-

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

The Group's financial assets that are secured have sufficiently low "loan to value" (LTV) ratios, which result in no loss allowance being recognised in accordance with the Group's expected credit loss model.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**3 Financial risk management (Continued)****3.1 Credit risk (Continued)****3.1.7 ECL measurement (Continued)****Sensitivity analysis**

The most significant assumptions affecting the ECL allowance for the Group include the following items:

- (i) House price index, given the significant impact it has on mortgage collateral valuations; and
- (ii) Stock market index, given the significant impact it has on listed share collateral valuations.

Set out below are the changes to the ECL as at 31 December 2020 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions (for example, the impact on ECL of each of upward or downward movements in house price index and stock market index):

	House price index		
	-20%	No change	+20%
Impact on ECL	-	-	-

	Hang Seng index		
	-10%	No change	+10%
Impact on ECL	-	-	-

3.1.8 Loss allowance

The loss allowance can be impacted by a variety of factors, including:

- Transfers between ECL stages due to financial instruments experiencing significant increases or decreases of credit risk or becoming credit-impaired in the period, and the consequent step up or step down between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular credit assessments;
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.8 Loss allowance (Continued)

(a) Loans and advances to customers

	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
	HK\$	HK\$	HK\$	HK\$	HK\$
Loss allowance as at 1 January 2020	-	-	-	-	-
Transfers between ECL stages	-	-	-	-	-
Changes in PDs/LGDs/EADs	-	-	-	-	-
Financial assets derecognised during the period	-	-	-	-	-
Loss allowance as at 31 December 2020	-	-	-	-	-

	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
	HK\$	HK\$	HK\$	HK\$	HK\$
Loss allowance as at 1 January 2019	-	-	-	-	-
Transfers between ECL stages	-	-	-	-	-
Changes in PDs/LGDs/EADs	-	-	-	-	-
Financial assets derecognised during the period	-	-	-	-	-
Loss allowance as at 31 December 2019	-	-	-	-	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.8 Loss allowance (Continued)

(b) Guarantees, contingent liabilities and loan commitments

	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
	HK\$	HK\$	HK\$	HK\$	HK\$
Loss allowance as at 1 January 2020	-	-	-	-	-
Transfers between ECL stages	-	-	-	-	-
Changes in PDs/LGDs/EADs	-	-	-	-	-
Financial assets derecognised during the period	-	-	-	-	-
Loss allowance as at 31 December 2020	-	-	-	-	-

	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
	HK\$	HK\$	HK\$	HK\$	HK\$
Loss allowance as at 1 January 2019	-	-	-	-	-
Transfers between ECL stages	-	-	-	-	-
Changes in PDs/LGDs/EADs	-	-	-	-	-
Financial assets derecognised during the period	-	-	-	-	-
Loss allowance as at 31 December 2019	-	-	-	-	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.8 Loss allowance (Continued)

(c) Balances and placements with banks

	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
	HK\$	HK\$	HK\$	HK\$	HK\$
Loss allowance as at 1 January 2020	-	-	-	-	-
Transfers between ECL stages	-	-	-	-	-
Changes in PDs/LGDs/EADs	-	-	-	-	-
Financial assets derecognised during the period	-	-	-	-	-
Loss allowance as at 31 December 2020	-	-	-	-	-

	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
	HK\$	HK\$	HK\$	HK\$	HK\$
Loss allowance as at 1 January 2019	-	-	-	-	-
Transfers between ECL stages	-	-	-	-	-
Changes in PDs/LGDs/EADs	-	-	-	-	-
Financial assets derecognised during the period	-	-	-	-	-
Loss allowance as at 31 December 2019	-	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.9 Write-off policy

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

The Group may write-off financial assets that are still subject to enforcement activity. However, there were no such assets being written off during the year ended 31 December 2020 and 31 December 2019.

3.1.10 Modification of financial assets

Apart from the rescheduled loans stated in note 3.1.3, the Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring.

The Group continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

All rescheduled loans of the Group under the Pre-approved Principal Payment Holiday Scheme are of performing credit rating and are of book value amounted to HK\$151,680,068 as at 31 December 2020 (2019:HK\$Nil).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.11 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table sets out the breakdown of the Group's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2020 and 2019. For this distribution, the Group has allocated exposures to regions based on the country of domicile of its counterparties. Credit risk exposure by geographical sectors is classified according to the location of counterparties after taking into account the transfer of risk.

The Group

	Hong Kong HK\$	Asia Pacific excluding Hong Kong HK\$	Total HK\$
At 31 December 2020			
Placements with banks	-	342,354,898	342,354,898
Loans and advances to customers:			
Loans to individuals:			
- Overdrafts	5,394,856	-	5,394,856
Loans to corporate entities:			
- Investment companies	151,680,068	-	151,680,068
- SMEs	6,672,563	-	6,672,563
	<u>163,747,487</u>	<u>342,354,898</u>	<u>506,102,385</u>
At 31 December 2019			
Placements with banks	70,000,000	537,169,434	607,169,434
Investment debt securities measured at FVOCI	298,877,119	-	298,877,119
Loans and advances to customers:			
Loans to individuals:			
- Overdrafts	4,791,334	-	4,791,334
- Mortgages	282,166	-	282,166
Loans to corporate entities:			
- Investment companies	154,333,955	-	154,333,955
- SMEs	6,999,966	-	6,999,966
	<u>535,284,540</u>	<u>537,169,434</u>	<u>1,072,453,974</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

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

(b) Industry sectors

The following table sets out the breakdown of the Group's main credit exposure at their carrying amounts, as categorised by the industry sectors of its counterparties.

The Group

	Sovereign HK\$	Financial institutions HK\$	Whole-sale and retail trade HK\$	Investment companies HK\$	Individuals HK\$	Total HK\$
As at 31 December 2020						
Placements with banks	-	342,354,898	-	-	-	342,354,898
Loans and advances to customers:						
Loans to individuals:						
- Overdrafts	-	-	-	-	5,394,856	5,394,856
Loans to corporate entities:						
- Investment companies	-	-	-	151,680,068	-	151,680,068
- SMEs	-	-	6,672,563	-	-	6,672,563
	-	342,354,898	6,672,563	151,680,068	5,394,856	506,102,385
As at 31 December 2019						
Placements with banks	-	607,169,434	-	-	-	607,169,434
Investment debt securities measured at FVOCI	298,877,119	-	-	-	-	298,877,119
Loans and advances to customers:						
Loans to individuals:						
- Overdrafts	-	-	-	-	4,791,334	4,791,334
- Mortgages	-	-	-	-	282,166	282,166
Loans to corporate entities:						
- Investment companies	-	-	-	154,333,955	-	154,333,955
- SMEs	-	-	6,999,966	-	-	6,999,966
	298,877,119	607,169,434	6,999,966	154,333,955	5,073,500	1,072,453,974

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**3 Financial risk management (Continued)****3.2 Market risk**

The Group takes on minimal 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, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

The Group performs periodic stress tests to monitor its exposures to market risks. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group are in general risk factor stress testing, where stress movements are applied to risk category.

The results of the stress tests are reviewed by senior management and by Board Committees. The stress testing is tailored to the business and typically uses scenario analysis.

3.2.1 Sensitivity analysis for 2020 and 2019

As at 31 December 2020, no significant open positions in foreign currencies were taken, hence the net interest income for foreign currencies were not sensitive to interest rate changes. Interest sensitivity applies mainly to Hong Kong Dollar ("HKD") positions, whereby if the HKD market interest rates had been 50 basis points lower with other variables held constant, the Group's profit after tax for the year and reserves would have been HK\$2,504,070 (2019: HK\$3,692,092) lower. This arose as a result of lower net interest income earned on HKD financial instruments.

The Group's equity risk position arises mainly from the holdings of equity securities all being classified as financial assets measured at FVOCI, the majority of which being listed in Hong Kong. Such holdings are held for long term investment purpose. At 31 December 2020, if Hang Seng Index had been 10% lower (2019: 10% lower) with all other variables held constant and the equity instruments moved according to the historical correlation with the index, the Group's investment revaluation reserve would be HK\$442,731 lower (2019: HK\$569,522 lower). The Group's equity securities measured at FVOCI would be HK\$442,731 lower (2019: HK\$569,522 lower).

At 31 December 2020 and 2019, majority of the Group's financial assets and liabilities are denominated in HKD or United States dollars ("USD") and as HKD is pegged to the USD, therefore the Group is not exposed to significant currency risk.

The method and assumption used on the above sensitivity analysis on interest rate risk and equity price risk is performed on the same basis for both 2020 and 2019.

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3 Financial risk management (Continued)

3.2 Market risk (Continued)

3.2.2 Foreign exchange

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency.

Concentrations of currency risk on-and off-balance sheet items

The Group	HK Dollars HK\$	US Dollars HK\$	Others HK\$	Total HK\$
At 31 December 2020				
Assets				
Cash and balances with banks	254,653,660	22,434,702	422,237	277,510,599
Placements with banks maturing between one and twelve months	180,000,000	-	-	180,000,000
Loans and advances to customers and other accounts	168,896,271	740	29	168,897,040
Investment securities measured at FVOCI	6,553,796	38,136	-	6,591,932
Property, plant and equipment	101,083,789	-	-	101,083,789
Investment properties	288,000,000	-	-	288,000,000
Right-of-use assets	156,783	-	-	156,783
Tax recoverable	204	-	-	204
Total assets	999,344,503	22,473,578	422,266	1,022,240,347
Liabilities				
Deposits from customers	247,930,490	21,959,604	151,538	270,041,632
Other liabilities and provisions	27,514,618	39,618	120	27,554,356
Deferred tax liabilities	11,282,089	-	-	11,282,089
Tax payable	87,897	-	-	87,897
Total liabilities	286,815,094	21,999,222	151,658	308,965,974
Net on-balance sheet position	712,529,409	474,356	270,608	713,274,373
Credit commitments	12,932,580	-	-	12,932,580

TAI SANG BANK LIMITED

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**3 Financial risk management (Continued)****3.2 Market risk (Continued)****3.2.2 Foreign exchange (Continued)**

The Group	HK Dollars HK\$	US Dollars HK\$	Others HK\$	Total HK\$
At 31 December 2019				
Assets				
Cash and balances with banks	283,470,982	4,362,576	394,572	288,228,130
Placements with banks maturing between one and twelve months	315,000,000	17,892,861	-	332,892,861
Loans and advances to customers and other accounts	183,748,532	52,488	57	183,801,077
Investment securities measured at FVOCI	306,964,072	53,309	-	307,017,381
Property, plant and equipment	72,272,044	-	-	72,272,044
Investment properties	324,100,000	-	-	324,100,000
Right-of-use assets	344,922	-	-	344,922
Tax recoverable	105,576	-	-	105,576
Total assets	1,486,006,128	22,361,234	394,629	1,508,761,991
Liabilities				
Deposits from customers	730,185,514	21,814,989	141,242	752,141,745
Other liabilities and provisions	22,233,643	70,390	113	22,304,146
Deferred tax liabilities	7,493,314	-	-	7,493,314
Total liabilities	759,912,471	21,885,379	141,355	781,939,205
Net on-balance sheet position	726,093,657	475,855	253,274	726,822,786
Credit commitments	1,527,432	-	-	1,527,432

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.2 Market risk (Continued)

3.2.3 Interest rate risk

Interest sensitivity of assets, liabilities and off-balance sheet items - repricing analysis

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 Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and 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. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by senior management.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

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3.2.3.3 Interest rate risk (Continued)

Deposits from customers	171,620,146	2,004,148	-	-	96,417,338	270,041,632
Other liabilities	15,724	31,514	116,295	-	38,760,809	38,924,342
Total liabilities	171,635,870	2,035,662	116,295	-	135,178,147	308,965,974
Total interest sensitivity gap	3,202,231	329,644,406	(116,295)	-		

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.2 Market risk (Continued)

3.2.3 Interest rate risk (Continued)

The Group

At 31 December 2019

	Up to 1 month HK\$	1 - 3 months HK\$	3 - 12 months HK\$	1 - 5 years HK\$	Over 5 years HK\$	Non- interest bearing HK\$	Total HK\$
Assets							
Cash and balances with banks	274,787,368	-	-	-	-	13,440,762	288,228,130
Placements with banks maturing between one and twelve months	-	317,059,327	15,833,534	-	-	-	332,892,861
Loans and advances to customers and other accounts	27,905,806	138,501,615	-	-	-	17,393,656	183,801,077
Investment securities measured at FVOCI	99,966,450	99,586,131	99,324,538	-	-	8,140,262	307,017,381
Other assets	-	-	-	-	-	396,822,542	396,822,542
Total assets	402,659,624	555,147,073	115,158,072	-	-	435,797,222	1,508,761,991
Liabilities							
Deposits from customers	504,262,015	113,894,149	27,837,133	-	-	106,148,448	752,141,745
Other liabilities	15,467	30,997	140,549	163,533	-	29,446,914	29,797,460
Total liabilities	504,277,482	113,925,146	27,977,682	163,533	-	135,595,362	781,939,205
Total interest sensitivity gap	(101,617,858)	441,221,927	87,180,390	(163,533)	-		

TAI SANG BANK LIMITED

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**3 Financial risk management (Continued)****3.3 Liquidity risk**

Liquidity risk arises from the mismatch in the cash flows arising from on-balance sheet assets and liabilities, plus the settlement characteristics of off-balance sheet activities.

The Group's liquidity management process, as closely monitored by senior management in accordance with policies and guidelines approved by the Board, includes the following tasks:

- day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met;
- maintaining adequate amount of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- monitoring liquidity ratios against internal and regulatory requirements; and
- managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of maturity profile projections for the next day, week and month respectively, as these are key periods for liquidity management. Mismatches between medium-term assets and liabilities together with the level and type of undrawn lending commitments, overdraft facilities usage and contingent liabilities are also monitored under the usual conservative strategy of the Group.

3.3.1 Maturity analysis

The table on the following page analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at end of the reporting period to the contractual maturity date.

TAI SANG BANK LIMITED
(Incorporated in Hong Kong with limited liability)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

3.3.1 Maturity analysis (Continued)

The Group													
At 31 December 2020													
		Repayable on demand HK\$	Up to 1 month HK\$	1-3 months HK\$	3-12 months HK\$	1-5 years HK\$	Over 5 years HK\$	Indefinite HK\$	Total HK\$				
Assets													
Cash and balances with banks		115,155,701	162,354,898	-	-	-	-	-	277,510,599				
Placements with banks maturing between one and twelve months		-	-	180,000,000	-	-	-	-	180,000,000				
Loans and advances to customers and other accounts		12,069,143	550,579	3,446,552	2,627,464	14,842,380	134,519,457	841,465	168,897,040				
Investment securities measured at FVOCI		-	-	-	-	-	-	6,591,932	6,591,932				
Property, plant and equipment		-	-	-	-	-	-	101,083,789	101,083,789				
Investment properties		-	-	-	-	-	-	288,000,000	288,000,000				
Right-of-use assets		-	15,678	31,357	109,748	-	-	-	156,783				
Tax recoverable		-	-	-	204	-	-	-	204				
Total assets		127,224,844	162,921,155	183,477,909	2,737,416	14,842,380	134,519,457	396,517,186	1,022,240,347				
Liabilities													
Deposits from customers		233,007,879	35,029,605	2,004,148	-	-	-	-	270,041,632				
Other liabilities and provisions		9,173,171	2,036,505	2,276,686	11,631,161	2,273,300	-	-	27,390,823				
Lease liabilities		-	15,724	31,514	116,295	-	-	-	163,533				
Deferred tax liabilities		-	-	-	-	-	-	11,282,089	11,282,089				
Tax payable		-	-	-	87,897	-	-	-	87,897				
Total liabilities		242,181,050	37,081,834	4,312,348	11,835,353	2,273,300	-	11,282,089	308,965,974				
Net liquidity gap		(114,956,206)	125,839,321	179,165,561	(9,097,937)	12,569,080	134,519,457	385,235,097	713,274,373				

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

3.3.1 Maturity analysis (Continued)

The Group

At 31 December 2019	Repayable on demand HK\$	Up to 1 month HK\$	1 - 3 months HK\$	3 - 12 months HK\$	1 - 5 years HK\$	Over 5 years HK\$	Indefinite HK\$	Total HK\$
Assets								
Cash and balances with banks	13,951,557	274,276,573	-	-	-	-	-	288,228,130
Placements with banks maturing between one and twelve months	-	-	317,059,327	15,833,534	-	-	-	332,892,861
Loans and advances to customers and other accounts	40,630,673	1,297,426	2,737,112	20,410,956	88,282,965	29,547,140	894,805	183,801,077
Investment securities measured at FVOCI	-	99,966,450	99,586,131	99,324,538	-	-	8,140,262	307,017,381
Property, plant and equipment	-	-	-	-	-	-	72,272,044	72,272,044
Investment properties	-	-	-	-	-	-	324,100,000	324,100,000
Right-of-use assets	-	15,678	31,357	141,104	156,783	-	-	344,922
Tax recoverable	-	45,832	-	59,744	-	-	-	105,576
Total assets	54,582,230	375,601,959	419,413,927	135,769,876	88,439,748	29,547,140	405,407,111	1,508,761,991
Liabilities								
Deposits from customers	500,219,590	110,190,873	113,894,149	27,837,133	-	-	-	752,141,745
Other liabilities and provisions	3,829,490	1,746,617	3,296,534	11,777,334	1,303,625	-	-	21,953,600
Lease liabilities	-	15,467	30,997	140,549	163,533	-	-	350,546
Deferred tax liabilities	-	-	-	-	-	-	7,493,314	7,493,314
Total liabilities	504,049,080	111,952,957	117,221,680	39,755,016	1,467,158	-	7,493,314	781,939,205
Net liquidity gap	(449,466,850)	263,649,002	302,192,247	96,014,860	86,972,590	29,547,140	397,913,797	726,822,786

TAI SANG BANK LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

3.3.2 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities as at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

The Group

	Up to 1 month HK\$	1-3 months HK\$	3 - 12 months HK\$	More than 1 year HK\$	Total HK\$
At 31 December 2020					
Non-derivative cash flow					
Liabilities					
Deposits from customers	268,037,484	2,004,148	-	-	270,041,632
Other liabilities	11,210,888	2,277,180	9,151,083	2,273,300	24,912,451
Total liabilities (contractual maturity)	279,248,372	4,281,328	9,151,083	2,273,300	294,954,083
Assets held for managing liquidity risk (contractual maturity)					
	277,903,627	180,748,337	2,735,392	-	461,387,356
At 31 December 2019					
Non-derivative cash flow					
Liabilities					
Deposits from customers	610,410,463	113,894,149	27,837,133	-	752,141,745
Other liabilities	5,653,869	3,570,415	9,541,735	1,303,624	20,069,643
Total liabilities (contractual maturity)	616,064,332	117,464,564	37,378,868	1,303,624	772,211,388
Assets held for managing liquidity risk (contractual maturity)					
	601,010,141	318,942,875	15,997,829	-	935,950,845

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with banks and central bank, items in the course of collection and exchange fund bills; and placements with banks. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The portfolio of marketable securities held provides further reserves to meet unexpected cash outflows.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

3.3.3 Off-balance sheet items

The Group

	No later than 1 year HK\$	Indefinite HK\$	Total HK\$
At 31 December 2020			
Loan commitments	12,932,580	-	12,932,580
At 31 December 2019			
Loan commitments	1,527,432	-	1,527,432

(a) Loan commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments, that commit it to extend credit to customers and other facilities, are summarised in the above table.

(b) Financial guarantees and other financial facilities

Financial guarantees are also included above based on the conditions existed at the reporting date as to what contractual payments are required.

3.4 Fair values of financial assets and liabilities

(a) Financial instruments not measured at fair value

The fair values of financial assets and liabilities not presented at fair value in the Group's statement of financial position are estimated as follows:

(i) Placements with banks

The fair value of overnight placements to banks is their carrying amount. Fixed interest-bearing placements are maturing within one year from the end of the reporting period and their carrying value approximates fair value.

(ii) Loans and advances to customers

Loans and advances to customers are net of provisions for impairment and bear interest at a floating rate and their carrying value approximates fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.4 Fair values of financial assets and liabilities (Continued)

(a) Financial instruments not measured at fair value (Continued)

(iii) Deposits from customers

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The fair value of those balances bearing interest at a floating rate is their carrying value. Fixed interest-bearing deposits from customers are maturing within one year from the end of the reporting period and their carrying value approximates fair value.

(b) Fair value hierarchy

HKFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as price) or indirectly (that is, derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.4 Fair values of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

Assets measured at fair value:

The Group

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
31 December 2020				
Recurring fair value measurement				
Equity investments measured at FVOCI	6,455,932	-	136,000	6,591,932
31 December 2019				
Recurring fair value measurement				
Equity investments measured at FVOCI	8,004,262	-	136,000	8,140,262
Debt securities measured at FVOCI	298,877,119	-	-	298,877,119
	306,881,381	-	136,000	307,017,381

There were no significant transfers of financial assets between all levels of fair value hierarchy classifications. Predominately of the Group's fair value financial assets are at level 1 equity investments. Level 3 financial assets refer to unlisted equity investments of which their cost are considered be an appropriate estimate of their fair value.

(c) Fair value of financial assets and liabilities not measured at fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2020 and 31 December 2019.

Accordingly, no disclosure on the fair values and the level of the fair value hierarchy are disclosed in the consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**3 Financial risk management (Continued)****3.5 Capital management**

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of consolidated statement of financial position, are:

- to comply with the capital requirements under the Banking (Capital) Rules of the Banking Ordinance and the authorization criteria of licensed bank under the Banking Ordinance;
- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders;
- to maintain a strong capital base to support the Group's stability and its business development; and
- to employ capital in an efficient and risk based approach with an aim to optimize risk adjusted return to the shareholders.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the Banking (Capital) Rules. The required information is filed with the HKMA on a quarterly basis.

The HKMA requires each bank or banking group to maintain a capital adequacy ratio ("CAR"), defined as the ratio of total regulatory capital (as defined under the Banking (Capital) Rules) to the risk weighted assets, at or above the minimum as set out in section 3A of the Banking (Capital) Rules. The capital adequacy ratio as at 31 December 2020 are computed on both solo and consolidated basis of the Bank as specified by the HKMA under section 3C of the Banking (Capital) Rules for its regulatory purposes, and are in accordance with the Banking (Capital) Rules.

The Bank's policy on capital adequacy as approved by the Board of Directors sets out the objectives, policies and process for managing capital and assessing the adequacy of capital to support its current and future activities. The Bank reviews its policy on capital adequacy on a regular basis to ensure all necessary changes are reflected in the policies.

CAR is monitored by the Bank on a daily basis to ensure compliance with all relevant statutory requirements and regulatory guidelines governing the banking business.

Other than statutory CAR, an internal trigger CAR is applied for control purposes. If the actual CAR falls below the trigger ratio, the case would immediately be reported to the Board and the HKMA, and remedial action will be taken.

In addition, the Bank will assess the impact on its capital when there are new products, new investments, or any proposed significant transactions.

Semi-annual stress tests are also performed to assess the potential impact of extreme business conditions on capital and to develop strategies to mitigate the adverse effects where necessary.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.5 Capital management (Continued)

The table below summarises the ratios and the composition of regulatory capital of the Group as at 31 December 2020 and 31 December 2019. The Bank complied with all of the externally imposed capital requirements by the HKMA throughout the year.

	2020	2019
Common equity tier 1 capital ratio	<u>76.31%</u>	<u>66.21%</u>
Tier 1 capital ratio	<u>76.31%</u>	<u>66.21%</u>
Total capital ratio	<u>103.45%</u>	<u>90.02%</u>
Capital conservation buffer ratio	<u>2.5%</u>	<u>2.5%</u>

The above capital ratios represent the consolidated ratios of the Bank computed in accordance with the Banking (Capital) Rules as at 31 December 2020 and 2019. In accordance with the Banking (Capital) Rules, 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. The Bank has been exempted from the calculation of risk weighted assets for market risk.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**3 Financial risk management (Continued)****3.5 Capital management (Continued)**

The Bank is required to calculate and report its capital ratios on the consolidated position based on the regulatory scope of consolidated figures in addition to the Bank's solo position based on its unconsolidated level figures. The basis of consolidation for accounting purpose differs from the basis of consolidation for regulatory purposes, under which only Success Land Enterprises Limited, Golden Wisdom Development Limited and Team Gold Investment Limited are included as subsidiaries in the consolidated Group for regulatory purposes.

The capital base after deductions used in the calculation of the above capital ratios and reported to the Hong Kong Monetary Authority is analysed as follows:

	2020 HK\$'000	2019 HK\$'000
Common equity tier 1 (CET1) capital		
CET1 capital instruments	264,987	264,987
Retained earnings	399,099	411,254
Disclosed reserves	3,478	5,071
	<u>667,564</u>	<u>681,312</u>
Less: Cumulative fair value gains arising from revaluation of land and buildings	(266,552)	(274,616)
Regulatory reserve for general banking risk	(1,800)	(1,800)
Total CET1 capital after deductions	<u>399,212</u>	<u>404,896</u>
Additional Tier 1 capital	-	-
Total Tier 1 capital after deductions	<u>399,212</u>	<u>404,896</u>
Tier 2 capital		
Reserve attributable to fair value gains on revaluation of land and buildings	140,204	143,833
Regulatory reserve for general banking risk	1,800	1,800
	<u>142,004</u>	<u>145,633</u>
Less: Tier 2 capital deductions	-	-
Total Tier 2 capital after deductions	<u>142,004</u>	<u>145,633</u>
Total capital base	<u>541,216</u>	<u>550,529</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**4 Critical accounting estimates, and judgments in applying accounting policies****(a) Estimate of fair value of investment properties**

The fair values of investment properties are estimated based on the valuation made by an independent professional valuer on an open market basis at a valuation date. The fair values are assessed in accordance with the HKIS Valuation Standards on Properties (2012 Edition) published by the Hong Kong Institute of Surveyors. The contractual rental income and the expected future market rental income after allowing for outgoings and maintenance requirements are capitalised at observed market yields. The principal assumptions underlying the estimation of market value are those related to: the receipt of contractual rentals; expected future market rentals; rent free periods; maintenance requirements; and observed market yields. Changes in the assumptions used in the valuation would affect the fair value of investment properties.

In addition, the values are also assessed by reference to comparable sales transactions around the valuation date as reported in the relevant market at similar locations. Appropriate adjustments have been made on the values of the subject properties for relevant factors, such as location difference, building age, time of transaction, shop frontage, floor levels and pedestrian flow, etc.

(b) Long-service payments

The present value of the long-service payments depends on a number of factors that are determined based on a number of assumptions. The assumptions used in determining the provision for long-service payments include the discount rate, the rate of staff pay adjustments, and the probability of staff entitlement for long service payments. Any changes in these assumptions will impact the carrying amount of long-service payments obligations.

The Group determines the appropriate discount rate at the end of each reporting period upon referencing the interest rates on government bonds. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the long-service payments obligations.

Provision for long-service payments includes in accounts and other payables under the statement of financial position of HK\$2,026,465 as at 31 December 2020 (2019: HK\$1,897,716). The assumptions used in determining the provision for long-service payments as at 31 December 2020 are as follows: discount rate, averaged at 1.02% (2019: 1.99%), rate of staff pay adjustments 4.124% (2019: 4.374%), and the probability of staff entitlement for long service payments, averaged at 58.62% (2019: 59.64%). The change in these assumptions between 2020 and 2019 has resulted in an increase of HK\$128,749 in provision of long-service payments.

(c) Measurement of the ECL allowance

The measurement of the ECL allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 3.1.4, which also sets out key sensitivities of the ECL to changes in these elements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Critical accounting estimates, and judgments in applying accounting policies (Continued)

(c) Measurement of the ECL allowance (Continued)

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in note 3.1.4.

(d) Determination of deferred taxation

In determining the deferred tax positions of the Group and of the Bank, significant judgment is required in determining the tax implications of the transactions entered by the Group. Deferred tax assets are recognised to the extent that it is probable that it could be recoverable. Deferred tax liabilities are recognised at full.

Management reviewed all the transactions entered by the Group and by the Bank, and all deferred tax assets (to the extent recoverable) and deferred tax liabilities are recognised in the consolidated financial statements except for the certain tax losses carry forwards that the realisation of related tax benefit through future taxable profits is not probable.

5 Net interest income

	2020 HK\$	2019 HK\$
Interest income		
Cash and balances and placements with banks	5,934,234	14,081,751
Loans and advances to customers	4,651,426	6,687,858
Investment securities measured at FVOCI	2,074,306	3,796,882
Others	1,127	-
	<u>12,661,093</u>	<u>24,566,491</u>
Interest expense		
Deposits from customers	1,708,372	2,665,696
Bank borrowings	7,466	-
Lease liabilities	4,387	2,198
Others	18,965	49,241
	<u>1,739,190</u>	<u>2,717,135</u>

The interest income and interest expenses are for financial assets and financial liabilities that are not at fair value through profit or loss.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Other operating income

	2020 HK\$	2019 HK\$
Fees and commission income		
- Credit related fees and commissions	2,500	3,083
- Other fees	132,486	131,025
Less: fees and commission expense		
- Other fees and commission paid	(56,309)	(60,856)
Net fees and commission income	78,677	73,252
Net gain from trading of foreign currency	13,048	19,085
Gross rental income from investment properties	8,571,097	9,463,885
Less: rental outgoings	(3,273,315)	(4,197,493)
	5,297,782	5,266,392
Air-conditioning and management fees	1,936,889	2,371,408
Dividend income from:		
- listed equity investments measured at FVOCI	109,496	404,040
- unlisted equity investments measured at FVOCI	-	62,560
Safe deposit box rental	6,431,056	6,113,883
Exchange differences	16,207	(1,370)
Others	372,957	354,453
	8,866,605	9,304,974
	14,256,112	14,663,703

7 Operating expenses

	2020 HK\$	2019 HK\$
Staff costs (Note 8)	15,297,056	17,257,551
Depreciation – property, plant and equipment	1,648,791	1,006,193
Depreciation – right-of-use assets	188,139	181,210
Auditor's remuneration	870,000	870,000
Premises and equipment expenses	1,371,639	1,291,082
Computer expenses	1,042,295	1,507,851
Administrative expenses	1,535,615	1,920,350
Professional fees	692,200	465,850
Other operating expenses	2,661,493	1,395,297
	25,307,228	25,895,384

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8 Staff costs

	2020 HK\$	2019 HK\$
Wages and salaries	16,273,092	16,080,090
Accrual for annual leave and long-service payment	103,053	525,934
Pension cost - defined contribution plan (Note (i))	688,397	651,527
Less: ESS wage subsidy received (Note (ii))	(1,767,486)	-
	<u>15,297,056</u>	<u>17,257,551</u>

Staff costs include salary and contribution to retirement scheme paid as directors' emoluments (Note 23).

Note (i): Pension cost

There were no forfeited contributions utilized during the year (2019: Nil) nor available at the year-end to reduce future contributions.

Contributions totaling HK\$87,536 (2019: HK\$106,712) were payable to the defined contribution plan at the year end.

Note (ii): Employment Support Scheme ("ESS") subsidy received

The Group applied for the ESS and received HK\$1,767,486 as a result during the year. The subsidy was provided by the Hong Kong SAR government (the "Government") to the employers in Hong Kong with the aim to help employers to retain their staff during the difficult financial period. The Group has accounted for the subsidy on cash receipt basis.

To qualify for the subsidy under the ESS, the Group had to satisfy a number of conditions required by the Government. Otherwise, there would be penalties or the subsidy received would have to be refunded. The Group has mostly met the conditions under the ESS and did not consider that material financial contingencies would occur due to the receipt of the subsidy under the ESS.

9 Income tax expense

Hong Kong income tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profit for the year.

	2020 HK\$	2019 HK\$
Current income tax expense/(credit) - Hong Kong profits tax	87,685	(4,015)
Deferred income tax charge (Note 19)	3,788,775	1,226,879
Income tax expense	<u>3,876,460</u>	<u>1,222,864</u>

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9 Income tax expense (Continued)

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2020 HK\$	2019 HK\$
(Loss)/profit before income tax	(8,143,277)	4,815,617
Tax calculated at tax rate of 16.5% (2019: 16.5%)	(1,343,641)	794,577
Adjustment on difference in tax rate applicable to group company	(45,997)	(16,765)
Income not subject to tax	(651,962)	(703,475)
Expenses not deductible for tax purposes	1,355,218	1,020,002
Other (Note)	4,601,373	(11,481)
Adjustment in respect of prior years	(38,531)	140,006
Income tax expense	3,876,460	1,222,864

Note: The majority of other items represent the deferred tax liabilities arises from the transfer of investment properties to bank premises during the year.

10 Cash and balances with banks

	2020 HK\$	2019 HK\$
Cash in hand	3,259,400	3,053,031
Balances with banks and central bank	111,896,301	10,898,526
Placements with banks maturing within one month	162,354,898	274,276,573
	277,510,599	288,228,130

11 Loans and advances to customers and other accounts

	2020 HK\$	2019 HK\$
Loans and advances to individuals		
- Overdrafts	5,394,856	4,791,334
- Mortgages	-	282,166
Loans and advances to corporate entities		
- Investment companies	151,680,068	154,333,955
- SMEs	6,672,563	6,999,966
Loans and advances to customers	163,747,487	166,407,421
Accrued interest	297,433	1,586,186
Amount due for clearing	-	13,153,903
Other accounts	4,852,120	2,653,567
Loans and advances to customers and other accounts	168,897,040	183,801,077

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11 Loans and advances to customers and other accounts (Continued)

There were no impaired loans or non-performing loans at 31 December 2020 (2019: Nil).

The Group accepted property mortgages and listed securities at fair value of HK\$685,000,000 and HK\$19,240,540 respectively (2019: HK\$732,500,000 and HK\$20,348,355 respectively) as collateral for loans, which it is permitted to sell or re-pledge in the event of default by the borrower, of which no properties or securities (2019: Nil) were re-pledged or lent to third parties.

12 Investment securities measured at FVOCI

	2020 HK\$	2019 HK\$
Debt securities		
- exchange fund bills, unlisted, at market value	-	298,877,119
Equity securities		
- listed in Hong Kong, at market value	6,417,796	7,950,953
- listed outside Hong Kong, at market value	38,136	53,309
- unlisted, at estimated fair value	136,000	136,000
Total equity securities	6,591,932	8,140,262
	<u>6,591,932</u>	<u>307,017,381</u>
Investment securities measured at FVOCI are analysed by categories of issuers as follows:		
- Sovereign	-	298,877,119
- Banks and other financial institutions	5,137,026	6,605,781
- Corporates	84,906	111,981
- Others	1,370,000	1,422,500
	<u>6,591,932</u>	<u>307,017,381</u>

The movement in investment securities measured at FVOCI is summarised as follows:

	2020 HK\$	2019 HK\$
At 1 January	307,017,381	8,841,833
Loss from changes in fair value (Note 21)	(1,589,181)	(731,661)
Additions	401,049,151	1,098,907,209
Redemptions/disposals	(699,885,419)	(800,000,000)
At 31 December	<u>6,591,932</u>	<u>307,017,381</u>

Equity investments measured at FVOCI

The Group has designated at FVOCI investments in a portfolio of equity securities that were acquired for investment purposes. The Group chose this presentation alternative because the investments were made for their dividend income rather than with a view to profit on a subsequent sale.

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13 Subsidiaries

Details of the subsidiaries at 31 December 2020 and 2019, which are held by the Bank directly, are as follows:

<u>Name</u>	<u>Place of incorporation</u>	<u>Principal activities</u>	<u>Particulars of issued shares held</u>	<u>Interest held</u>	<u>31 December 2020</u>		<u>31 December 2019</u>	
					<u>Total assets</u>	<u>Total equity</u>	<u>Total assets</u>	<u>Total equity</u>
TSB Property Management Limited	Hong Kong	Property management	10,000 ordinary shares of HK\$1 each	100%	HK\$ 1,010,329	HK\$ 707,488	HK\$ 949,114	HK\$ 508,214
Success Land Enterprises Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%	2	2	2	2
Golden Wisdom Development Limited	Hong Kong	Investment holding	22,900,000 ordinary shares of HK\$1 each	100%	31,745,335	31,357,534	32,385,780	31,818,525
Team Gold Investment Limited	Hong Kong	Investment holding	19,800,000 ordinary shares of HK\$1 each	100%	28,471,923	28,118,156	28,797,067	28,293,296

Details of the subsidiary acquired during the year and held by the Bank directly at 31 December 2020 are as follows:

<u>Name</u>	<u>Place of incorporation</u>	<u>Principled activities</u>	<u>Particulars of issued share hold</u>	<u>Interest held</u>	<u>31 December 2020</u>	
					<u>Total assets</u>	<u>Total equity</u>
Gold Harmony Enterprises Limited	Hong Kong	Investment holding	1 ordinary share of HK\$1 each	100%	HK\$ 2,184,399	HK\$ 1

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14 Property, plant and equipment

	Bank premises HK\$	Furniture, fixtures and equipment HK\$	Total HK\$
Cost or Deemed cost at valuation			
At 1 January 2020	117,618,203	15,387,885	133,006,088
Additions	-	2,374,600	2,374,600
Transfer in	28,100,000	-	28,100,000
Write-off / disposal	-	(61,729)	(61,729)
At 31 December 2020	145,718,203	17,700,756	163,418,959
At 1 January 2019	117,618,203	14,852,878	132,471,081
Additions	-	666,267	666,267
Write-off / disposal	-	(131,260)	(131,260)
At 31 December 2019	117,618,203	15,387,885	133,006,088
Accumulated depreciation and impairment			
At 1 January 2020	49,704,950	11,029,094	60,734,044
Charge for the year	549,430	1,099,361	1,648,791
Write-off / disposal	-	(47,665)	(47,665)
At 31 December 2020	50,254,380	12,080,790	62,335,170
At 1 January 2019	49,316,321	10,499,532	59,815,853
Charge for the year	388,629	617,564	1,006,193
Write-off / disposal	-	(88,002)	(88,002)
At 31 December 2019	49,704,950	11,029,094	60,734,044
Net book value			
At 31 December 2020	95,463,823	5,619,966	101,083,789
At 31 December 2019	67,913,253	4,358,791	72,272,044

The Group's bank premises at their net book values are analysed as follows:

	2020 HK\$	2019 HK\$
In Hong Kong, held on: Leases of over 50 years	95,463,823	67,913,253

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14 Property, plant and equipment (Continued)

Bank premises transferred from investment properties in 2020 were stated based on valuation performed on open market basis as at 18 March 2020 by an independent professionally qualified valuers, Savills Valuation and Professional Services Limited.

15 Investment properties

At 31 December 2020, the Group had no unprovided contractual obligations for future repairs and maintenance (2019: Nil).

In the consolidated statement of comprehensive income, direct operating expenses include HK\$33,297 (2019: HK\$Nil) relating to investment properties that were unlet.

The Group's interests in investment properties at their net book values are analysed as follows:

	2020 HK\$	2019 HK\$
In Hong Kong, held on:		
Leases of over 50 years	288,000,000	324,100,000

All investment properties were classified as level 3 asset of fair value hierarchy as of 31 December 2020 and 2019.

Valuation basis of investment properties

The investment properties were revalued as at 31 December 2020 and 31 December 2019 on the basis of its open market value, which was derived by the following valuation methodologies by Savills Valuation and Professional Services Limited, an independent firm of qualified property valuers.

- Sales evidence on the market on comparable properties around the time of valuation; and
- Capitalization of the income potential using appropriate capitalisation rate, which was derived from analysis of sale transactions and the valuer's interpretation of prevailing investor requirements or expectations.

The fair value measurement of investment properties is positively correlated to the market rental and negatively correlated to the capitalisation rate.

The following table shows a reconciliation from the beginning balances for fair value measurements in Level 3 of the fair value hierarchy for the year ended 31 December 2020:

	2020 HK\$	2019 HK\$
At 1 January	324,100,000	329,900,000
Loss from fair value adjustments on investment properties	(8,000,000)	(5,800,000)
Transfers out	(28,100,000)	-
At 31 December	288,000,000	324,100,000

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16 Right-of-use assets

	2020 HK\$	2019 HK\$
Right-of-use assets - building	156,783	344,922

The Group leases a property as its banking business back up centre and has the above right-of-use assets as at 31 December 2020 and 2019. There were no new additions to the Group's right-of-use assets during the current year (2019: HK\$376,279 new addition).

The depreciation charge of right-of-use assets is shown in note 7 of the consolidated financial statements. The interest expense on the lease liabilities is shown in note 5 of the consolidated financial statements.

17 Deposits from customers

	2020 HK\$	2019 HK\$
Demand deposits and current accounts	96,529,111	107,727,869
Savings deposits	136,478,768	392,491,721
Time, call and notice deposits	37,033,753	251,922,155
	270,041,632	752,141,745

18 Other liabilities and provisions

	2020 HK\$	2019 HK\$
Cashier orders	5,222,356	3,806,059
Rental deposits	9,562,774	9,280,280
Rental income received in advance	4,257,890	3,901,073
Accrued interest	1,597	435,822
Accounts and other payables	4,415,755	4,530,366
Lease liabilities	163,533	350,546
Amount due for clearing	3,930,451	-
	27,554,356	22,304,146

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19 Deferred income tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2020 HK\$	2019 HK\$
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	(5,736,771)	(4,978,880)
Deferred tax liabilities:		
- Deferred tax liabilities to be incurred after more than 12 months	17,018,860	12,472,194
Net deferred tax liabilities	<u>11,282,089</u>	<u>7,493,314</u>

The movement on the deferred tax account is as follows:

	2020 HK\$	2019 HK\$
At 1 January	7,493,314	6,266,435
Recognised in the consolidated statement of comprehensive income (Note 9)	3,788,775	1,226,879
At 31 December	<u>11,282,089</u>	<u>7,493,314</u>

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities

	Accelerated tax depreciation HK\$	Fair value gains HK\$	Total HK\$
At 1 January 2019	537,764	11,952,362	12,490,126
Recognised in the consolidated statement of comprehensive income	19,581	(37,513)	(17,932)
At 31 December 2019	557,345	11,914,849	12,472,194
Recognised in the consolidated statement of comprehensive income	249,453	4,297,213	4,546,666
At 31 December 2020	<u>806,798</u>	<u>16,212,062</u>	<u>17,018,860</u>

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19 Deferred income tax (Continued)

Deferred tax assets

	Tax losses HK\$	Other HK\$	Total HK\$
At 1 January 2019	6,122,898	100,793	6,223,691
Recognised in the consolidated statement of comprehensive income	(1,226,669)	(18,142)	(1,244,811)
At 31 December 2019	4,896,229	82,651	4,978,880
Recognised in the consolidated statement of comprehensive income	759,135	(1,244)	757,891
At 31 December 2020	5,655,364	81,407	5,736,771

Deferred income tax assets are recognised for tax losses carry forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

20 Share capital

	31 December 2020		31 December 2019	
	No. of shares	HK\$	No. of shares	HK\$
Ordinary shares issued and fully paid:	310,000,000	310,000,000	310,000,000	310,000,000

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21

Reserves

2020

	Group				
	Other properties revaluation reserve ¹ HK\$	Investment revaluation reserve ² HK\$	General reserve ³ HK\$	Regulatory reserve ⁴ HK\$	Retained earnings HK\$
At 1 January 2020	2,111,167	549,454	610,257	1,800,000	411,751,908
Loss on revaluation of investment securities measured at FVOCI	-	(1,589,181)	-	-	-
Loss on debt securities measured at FVOCI transfer to statement of comprehensive income on disposal	-	60,505	-	-	-
Transfer from revaluation reserve to retained earnings on depreciation of bank premises ⁵	(64,092)	-	-	-	64,092
Loss for the year	-	-	-	-	(12,019,737)
At 31 December 2020	2,047,075	(979,222)	610,257	1,800,000	399,796,263
Representing:					
Bank and subsidiaries	2,047,075	(979,222)	610,257	1,800,000	399,796,263
					403,274,373

- ¹ The other properties revaluation reserve represents the increases in the carrying amount arising on revaluation of bank premises prior to 30 September 1995 as stated in the accounting policy for property, plant and equipment (Note 2.10).
- ² The investment revaluation reserve represents the cumulative net change in the fair value of equity investments measured at FVOCI until such financial assets are derecognised or impaired as stated in the accounting policy for financial assets (Note 2.5).
- ³ The general reserve comprises previous years' transfer from retained earnings and is distributable.
- ⁴ The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserve are made directly through retained earnings and in consultation with the HKMA.
- ⁵ This is net of deferred taxation on the difference between the actual depreciation on premises and depreciation based on the historical cost of the premises of HK\$12,665 (2019: HK\$12,665).

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21 Reserves (Continued)

	Group					
	Other properties revaluation reserve ¹ HK\$	Investment revaluation reserve ² HK\$	General reserve ³ HK\$	Regulatory reserve ⁴ HK\$	Retained earnings HK\$	Total HK\$
At 1 January 2019	2,175,259	1,281,115	610,257	1,800,000	408,096,754	413,963,385
Change in accounting policy	-	-	-	-	(1,691)	(1,691)
At 1 January 2019 (restated)	2,175,259	1,281,115	610,257	1,800,000	408,095,063	413,961,694
Loss on revaluation of investment securities measured at FVOCI	-	(731,661)	-	-	-	(731,661)
Transfer from revaluation reserve to retained earnings on depreciation of bank premises ⁵	(64,092)	-	-	-	64,092	-
Profit for the year	-	-	-	-	3,592,753	3,592,753
At 31 December 2019	2,111,167	549,454	610,257	1,800,000	411,751,908	416,822,786
Representing:						
Bank and subsidiaries	2,111,167	549,454	610,257	1,800,000	411,751,908	416,822,786

¹ The other properties revaluation reserve represents the increases in the carrying amount arising on revaluation of bank premises prior to 30 September 1995 as stated in the accounting policy for property, plant and equipment (Note 2.10).

² The investment revaluation reserve represents the cumulative net change in the fair value of equity investments measured at FVOCI until such financial assets are derecognised or impaired as stated in the accounting policy for financial assets (Note 2.5).

³ The general reserve comprises previous years' transfer from retained earnings and is distributable.

⁴ The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserve are made directly through retained earnings and in consultation with the HKMA.

⁵ This is net of deferred taxation on the difference between the actual depreciation on premises and depreciation based on the historical cost of the premises of HK\$12,665 (2018: HK\$12,665).

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22 Notes to consolidated statement of cash flows

(a) Reconciliation of operating (loss)/profit to net cash outflow from operating activities

	2020 HK\$	2019 HK\$
Operating (loss)/profit	(129,213)	10,617,675
Dividend income from equity investments measured at FVOCI	(109,496)	(466,600)
Depreciation – property, plant and equipment	1,648,791	1,006,193
Depreciation – right-of-use assets	188,139	181,210
Decrease/(increase) in accrued interest and other accounts	12,244,104	(13,992,903)
Increase/(decrease) in other liabilities and provisions	5,258,223	(1,729,198)
Decrease in loans and advances to customers	2,659,934	7,562,475
Decrease in deposits from customers	(482,100,113)	(213,274,909)
Decrease/(increase) in placements with banks and exchange fund bills with original maturity over 3 months	160,188,163	(59,150,210)
Income tax refund	105,583	13,442
Net cash outflow from operating activities	<u>(300,045,885)</u>	<u>(269,232,825)</u>
Cash flows from operating activities included:		
- Interest received	13,949,846	24,638,257
- Interest paid	2,173,415	2,494,070

(b) Analysis of the balances of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition.

	2020 HK\$	2019 HK\$
Cash in hand (Note 10)	3,259,400	3,053,031
Balances with banks and central bank (Note 10)	111,896,301	10,898,526
Placements with banks with original maturity within 3 months	342,354,898	546,335,900
Exchange fund bills with original maturity within 3 months	-	199,552,581
	<u>457,510,599</u>	<u>759,840,038</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**23 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622) and Companies (Disclosure of information about Benefits of Directors) Regulation (Cap. 622G))****(a) Directors' emoluments and retirement benefits**

	2020 HK\$	2019 HK\$
The aggregate amounts of emoluments paid to or receivable by directors of the Bank during the year in respect of their services as directors were as follows:		

Fees	1,408,028	780,982
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The aggregate amounts of emoluments and retirement benefits paid to or receivable by directors of the Bank during the year in respect of their services in connection with the management of the affairs of the Bank or its subsidiary undertakings were as follows:

Salary	1,430,905	1,634,520
Employer's Contribution to Retirement Scheme	60,571	70,752
	1,491,476	1,705,272
	2,899,504	2,486,254

(b) Loans to directors and controlled body corporates by directors

Particulars of loans made to directors and controlled body corporates by directors are as follows:

	2020 HK\$	2019 HK\$
Aggregate amount of loans outstanding at the end of the year	12,069,114	11,793,244
Maximum aggregate amount of loans during the year	13,065,968	11,925,399

All loans to directors and controlled body corporates by directors are granted on values not greater and on term not more favourable than to borrowers of the same financial standing but unconnected with the Bank.

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24 Related-party transactions

A number of banking transactions were entered into with related parties in the normal course of business. These include the extension of credit facilities and deposit taking. For deposits taken and credit facilities extended, the interest rates charged are under terms and conditions that would normally apply to customers of comparable standing.

The following is a summary of significant related party transactions entered into with key management which include directors, relatives and companies controlled or significantly influenced by them in addition to those disclosed in note 23, which were carried out in the normal course of the Group's business:

	2020 HK\$	2019 HK\$
Loans		
Average balance during the year	101,449,558	108,398,901
Outstanding as at end of year	91,263,112	107,251,927
Interest income	3,315,213	5,712,636

The loans granted to related parties during the year are collateralised by properties, shares in listed companies and deposits. The fair value of these mortgaged properties and shares in listed companies as at 31 December 2020 were HK\$540,000,000 and HK\$19,240,540 (2019: HK\$540,000,000 and HK\$20,348,355) respectively. No provisions have been made in respect of loans advanced to related parties (2019: Nil).

	2020 HK\$	2019 HK\$
Deposits		
Average balance during the year	424,417,418	839,053,678
Outstanding as at end of year	201,236,578	681,175,147
Interest expense	1,651,654	2,626,081
Contingent liabilities and commitments		
contract amount		
Direct credit substitutes	-	-
Trade-related contingencies	-	-
Other commitments with an original maturity of under 1 year or which are unconditionally cancellable	12,932,580	1,527,432
Property management fee income (Note (i))	313,626	689,093
Property rental income (Note (ii))	2,284,037	4,962,221

Notes:

- (i) Property management fee income included fee income charged on the property managed by the Group on an actual costs incurred basis and management fee charged on an arm's length basis for premises leased to companies controlled by directors.
- (ii) Property rental income was charged on an arm's length basis for premises leased to companies controlled by directors.

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25 Contingent liabilities and commitments

(a) Credit commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitment, and the aggregate credit risk weighted amount:

	2020 HK\$	2019 HK\$
Contract amount		
Direct credit substitutes	-	-
Trade-related contingencies	-	-
Other commitments with an original maturity of under 1 year or which are unconditionally cancellable	12,932,580	1,527,432
	<u>12,932,580</u>	<u>1,527,432</u>
Credit risk weighted amount	-	-

(b) Operating lease commitments - the Group as lessor

The Group has contracted with tenants for the following future minimum lease receivables under non-cancellable operating leases:

	2020 HK\$	2019 HK\$
Land and buildings		
- not later than one year	8,638,243	6,281,887
- later than one year but not later than five years	6,882,859	3,825,581
	<u>15,521,102</u>	<u>10,107,468</u>

The Group leases out investment properties (Note 15) under operating lease arrangements, with leases typically for a period from one to three years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions. None of the leases includes contingent rentals.

(c) Capital commitments

During the year ended 31 December 2020, the Group had signed a provisional purchase agreement to acquire a commercial property in Mongkok to be used mainly as the Group's banking business back-up site. The said purchase transaction would be effected on 31 March 2021. The provisional purchase agreement was substituted by a Sale and Purchase Agreement on 20 January 2021. The acquisition price of the said property amounts to HK\$15,885,000 while HK\$2,184,398 has been paid as deposit and other incidental acquisition costs for the purchase which has been booked by the Group under Loans and advances to customers and other accounts as at 31 December 2020.

The Group does not have any other capital expenditure contracted for but not recognised as liabilities as at 31 December 2020 (2019: HK\$Nil).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**25 Contingent liabilities and commitments (Continued)****(d) Repairs and maintenance: investment properties**

The Group does not have any contractual obligation for future repairs and maintenance of the investment properties not recognised as a liability as at 31 December 2020 (2019: HK\$Nil).

(e) Legal proceeding

The Group has initiated a legal proceeding on 11 February 2021 as plaintiff via the issuance of a writ of summons to the Group's previous cleaning contractor, as defendant, for damages caused by the said cleaning contractor's negligence and lack of duty of care when carrying out their contracted work on 25 July 2020 which resulted in office damages by water flooding from a fire sprinkler broken by the cleaning contractor staff. The damages claimed by the Group from the defendant amounted to HK\$882,199 plus other damages yet to be assessed at this stage. The Group considers that it is premature at this stage to project the possible outcome or damage award of this case and therefore has included the information on this legal proceeding for disclosure only and has not provided for any commitment in the statements.

26 Reclassification and comparative figures

Reclassification on right-to-use assets have been made to the prior year's financial statements to enhance comparability with the current year's financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 STATEMENT OF FINANCIAL POSITION OF THE BANK

AS AT 31 DECEMBER 2020

	Note	31 December 2020 HK\$	31 December 2019 HK\$
Assets			
Cash and balances with banks		277,510,599	288,228,130
Placements with banks maturing between one and twelve months		180,000,000	332,892,861
Loans and advances to customers and other accounts		168,820,909	183,733,529
Investment securities measured at FVOCI		6,591,932	307,017,381
Investments securities in subsidiaries	13	42,710,003	42,710,002
Property, plant and equipment		101,083,789	72,272,044
Investment properties		233,800,000	268,300,000
Right-of-use assets		156,783	344,922
Total assets		1,010,674,015	1,495,498,869
Liabilities			
Deposits from			
- subsidiaries		6,962,652	6,158,838
- other customers		270,041,632	752,141,745
Other liabilities and provisions		26,586,447	20,792,221
Deferred tax liabilities		11,282,089	7,493,314
Total liabilities		314,872,820	786,586,118
Equity			
Share capital		310,000,000	310,000,000
Reserves	28	385,801,195	398,912,751
Total equity		695,801,195	708,912,751

Approved and authorised for issue by the Board of Directors on 25 March 2021.


Alfred Ma Ching Kuen)

Philip Ma Ching Yeung)

Directors

Total equity and liabilities

1,010,674,015

1,495,498,869

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28

Reserves of the Bank

2020

2020

	Bank					
	Other properties revaluation reserve ¹ HK\$	Investment revaluation reserve ² HK\$	General reserve ³ HK\$	Regulatory reserve ⁴ HK\$	Retained earnings HK\$	Total HK\$
At 1 January 2020	2,111,167	549,454	610,257	1,800,000	393,841,873	398,912,751
Loss on revaluation of investment securities measured at FVOCI	-	(1,589,181)	-	-	-	(1,589,181)
Loss on debt securities measured at FVOCI transfer to statement of comprehensive income on disposal	-	60,505	-	-	-	60,505
Transfer from revaluation reserve to retained earnings on depreciation of bank premises ⁵	(64,092)	-	-	-	64,092	-
Loss for the year	-	-	-	-	(11,582,880)	(11,582,880)
At 31 December 2020	2,047,075	(979,222)	610,257	1,800,000	382,323,085	385,801,195

1

The other properties revaluation reserve represents the increases in the carrying amount arising on revaluation of bank premises prior to 30 September 1995 as stated in the accounting policy for property, plant and equipment (Note 2.10).

2

The investment revaluation reserve represents the cumulative net change in the fair value of equity investments measured at FVOCI until such financial assets are derecognised or impaired as stated in the accounting policy for financial assets (Note 2.5).

3

The general reserve comprises previous years' transfer from retained earnings and is distributable.

4

The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserve are made directly through retained earnings and in consultation with the HKMA.

5

This is net of deferred taxation on the difference between the actual depreciation on premises and depreciation based on the historical cost of the premises of HK\$12,665 (2019: HK\$12,665).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 Reserves of the bank (Continued)

2019	Bank					
	Other properties revaluation reserve ¹ HK\$	Investment revaluation reserve ² HK\$	General reserve ³ HK\$	Regulatory reserve ⁴ HK\$	Retained earnings HK\$	Total HK\$
At 1 January 2019	2,175,259	1,281,115	610,257	1,800,000	389,488,235	395,354,866
Change in accounting policy	-	-	-	-	(1,691)	(1,691)
At 1 January 2019 (restated)	2,175,259	1,281,115	610,257	1,800,000	389,486,544	395,353,175
Loss on revaluation of investment securities measured at FVOCI	-	(731,661)	-	-	-	(731,661)
Transfer from revaluation reserve to retained earnings on depreciation of bank premises ⁵	(64,092)	-	-	-	64,092	-
Profit for the year	-	-	-	-	4,291,237	4,291,237
At 31 December 2019	2,111,167	549,454	610,257	1,800,000	393,841,873	398,912,751

- ¹ The other properties revaluation reserve represents the increases in the carrying amount arising on revaluation of bank premises prior to 30 September 1995 as stated in the accounting policy for property, plant and equipment (Note 2.10).
- ² The investment revaluation reserve represents the cumulative net change in the fair value of equity investments measured at FVOCI until such financial assets are derecognised or impaired as stated in the accounting policy for financial assets (Note 2.5).
- ³ The general reserve comprises previous years' transfer from retained earnings and is distributable.
- ⁴ The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserve are made directly through retained earnings and in consultation with the HKMA.
- ⁵ This is net of deferred taxation on the difference between the actual depreciation on premises and depreciation based on the historical cost of the premises of HK\$12,665 (2018: HK\$12,665).

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

The following information is disclosed as part of the accompanying information to the financial statements and does not form part of the financial statements.

1 Non-bank Mainland exposures

The Group did not have any non-bank Mainland exposures as at 31 December 2020 (2019: Nil).

2 Currency concentrations

The US dollar net position, the RMB net position and the EUR net position, each constitutes more than 10% of the total net position in all foreign currencies respectively, are reported as follows:

	Bank	
	2020	2019
	HK\$'000	HK\$'000
US Dollar Position:		
Equivalent in Hong Kong dollars		
Spot assets	22,474	22,361
Spot liabilities	(21,999)	(21,885)
Net long position	475	476

	Bank	
	2020	2019
	HK\$'000	HK\$'000
RMB Position:		
Equivalent in Hong Kong dollars		
Spot assets	388	363
Spot liabilities	(152)	(141)
Net long position	236	222

	Bank	
	2020	2019
	HK\$'000	HK\$'000
EUR Position:		
Equivalent in Hong Kong dollars		
Spot assets	35	32
Spot liabilities	-	-
Net long position	35	32

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

3 Loans and advances to customers

Gross advances to customers by loan usage

	2020		2019	
	Gross advances HK\$	Amount covered by collateral/ other security HK\$	Gross advances HK\$	Amount covered by collateral/ other security HK\$
Loans for use in Hong Kong				
Industrial, commercial and financial				
- property investment	72,484,375	72,484,375	58,873,329	58,873,329
Stockbrokers	-	-	2,913,220	2,913,220
Wholesale and retail trade	6,672,563	6,672,563	6,999,966	6,999,966
Individuals				
- loans for the purchase of residential properties other than flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	-	-	282,166	282,166
- others	5,394,856	5,394,856	4,791,334	4,791,334
Investment companies	79,195,693	79,195,693	92,547,406	92,547,406
	<u>163,747,487</u>	<u>163,747,487</u>	<u>166,407,421</u>	<u>166,407,421</u>

4 Segmental information

(i) Business activities

The Group operates predominantly in Hong Kong and in two classes of business - commercial banking and property investment. The commercial banking business includes, inter alia, acceptance of deposit from customers and the provision of lending, trade financing, foreign exchange, and other credit facilities to customers. Property investment represents interests in various commercial properties held for rental purposes.

At 31 December 2020, commercial banking and property investment accounted for HK\$734,240,347 and HK\$288,000,000 of the Group's operating assets respectively (2019: HK\$1,184,661,991 and HK\$324,100,000). For the year ended 31 December 2020, contributions to the Group's operating income from commercial banking and property investment, were HK\$17,525,942 and HK\$7,652,073 respectively (2019: HK\$28,525,363 and HK\$7,987,696 respectively).

(ii) Overdue and impaired loans by geographical area

As at 31 December 2020, the Group has no overdue or impaired loans (2019: Nil).

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)**4 Segmental information (Continued)****(iii) International claims**

The information as at 31 December on international claims discloses exposures to foreign 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.

	2020		2019	
	Banks HK\$'000	Total HK\$'000	Banks HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	342,355	342,355	537,169	537,169

5 Corporate governance

In monitoring the operations and the financial soundness of the Group, the Board has established seven specialised committees for handling matters which require detailed review or in-depth consideration, namely, the Executive Committee, Credit Committee, Asset and Liability Committee ("ALCO"), Audit Committee, Remuneration Committee, Nomination Committee and Risk Committee. The Audit Committee is made up of directors who are independent non-executive directors. Remuneration Committee, Nomination Committee and Risk Committee are chaired by independent non-executive directors and comprised of a majority of members being independent non-executive directors. Other committees are comprised of Chief Executive & General Manager and other directors and senior executives of the Bank as appointed by the Board.

The Executive Committee handles major matters arising from business and operational activities. It relieves the full Board from the needs to carry out detailed review of information and operational activities and also co-ordinates the work of other Board committees. The Credit Committee, in addition to its usual role in evaluating credit applications and making credit decisions, also serves the vital role of monitoring the loan portfolio quality of the Group. The ALCO oversees the Group's operations relating to interest rate risk, exchange rate risk and liquidity risk. In particular, ALCO ensures that the Group has adequate funds to meet its obligations. The Audit Committee assists the Board in providing independent review of the effectiveness of the financial reporting process and internal control systems of the Group by working closely with the Group's internal and external auditors. The Remuneration Committee establishes policies on the Group's remuneration paid to senior management and key personnel and monitors their proper implementation. Nomination Committee is responsible for the review of suitable candidates for directors and senior management posts. The Risk Committee oversees the overall risk of the Group and ensures the proper function of the Group's risk monitoring framework.

The Group has complied with the requirements set out in the Supervisory Policy Manual entitled "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority in all material aspects.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

6 Key Prudential Ratios (on Regulatory Consolidated Basis)

The key prudential ratios of the regulatory consolidated group as at 31 December 2020 with the previous four quarter ends as comparatives are disclosed in Template KM1 as below.

Template KM1: Key Prudential Ratios (on Regulatory Consolidated Basis)

		(a)	(b)	(c)	(d)	(e)
		31-Dec-20	30-Sep-20	30-Jun-20	31-Mar-20	31-Dec-19
	Regulatory capital (amount) (HK\$'000)					
1	Common Equity Tier 1 (CET1)	399,212	398,742	400,448	405,632	404,896
2	Tier 1	399,212	398,742	400,448	405,632	404,896
3	Total capital	541,216	542,260	543,966	551,265	550,529
	RWA (amount) (HK\$'000)					
4	Total RWA	523,167	525,470	552,074	604,237	611,569
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	76.31%	75.88%	72.54%	67.13%	66.21%
6	Tier 1 ratio (%)	76.31%	75.88%	72.54%	67.13%	66.21%
7	Total capital ratio (%)	103.45%	103.20%	98.53%	91.23%	90.02%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	2.500%	2.500%	2.500%	2.500%	2.500%
9	Countercyclical capital buffer requirement (%)	1.000%	1.000%	1.000%	1.000%	2.000%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	N/A	N/A	N/A	N/A	N/A
11	Total AI-specific CET1 buffer requirements (%)	3.500%	3.500%	3.500%	3.500%	4.500%
12	CET1 available after meeting the AI's minimum capital requirements (%)	68.31%	67.88%	64.54%	59.13%	57.21%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure (HK\$'000)	715,910	803,893	839,823	1,146,475	1,192,368
14	LR (%)	55.76%	49.60%	47.68%	35.38%	33.96%
	Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	N/A
16	Total net cash outflows	N/A	N/A	N/A	N/A	N/A
17	LCR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2 institution only:					
17a	LMR (%)	92.33%	80.56%	76.78%	101.25%	93.50%
	Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)					
	Applicable to category 1 institution only:					
18	Total available stable funding	N/A	N/A	N/A	N/A	N/A
19	Total required stable funding	N/A	N/A	N/A	N/A	N/A
20	NSFR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2A institution only:					
20a	CFR (%)	N/A	N/A	N/A	N/A	N/A

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

6 Key Prudential Ratios (on Regulatory Consolidated Basis) (Continued)

Note:

- (1) N/A: Not applicable
- (2) **Risk-based regulatory capital ratios**
The table above summaries the capital ratios calculated as computed in accordance with the Banking (Capital) Rules under regulatory consolidated basis of the Bank as at the dates shown. The constituent elements of the Total capital as at 31 December 2020 and 31 December 2019 have been disclosed in note of the Consolidated Financial Statements of the Group. The Common Equity Tier 1 capital and Tier 1 capital of the Bank's regulatory Group have slightly increased from 30 September 2020 while the Total capital of the Bank's regulatory Group has decreased from 30 September 2020, mostly due to the taking up of revaluation deficit of the Group's investment properties as at 31 December 2020. The Bank's regulatory consolidated CET1 ratio, Tier 1 ratio and Total capital ratio as at 31 December 2020 have slightly increased from those as at 30 September 2020.
- (3) The Bank uses the Basic Approach for calculating credit risk and the Basic Indicator Approach for calculating operational risk. The Bank was granted by the HKMA an exemption from the calculation of market risk under the exemption criteria under section 22(1) of the Banking (Capital) Rules on 22 March 2016 and has excluded market risk in the calculation of capital ratio since then and as at 31 December 2020.
- (4) The capital conservation buffer ratio for the Bank for 2020 is 2.5% (2019: 2.5%) as stipulated by the Banking (Capital) Rules. While the Bank only operates and has private sector credit exposures in Hong Kong for the purpose of the calculation of its countercyclical capital buffer ratio, the applicable countercyclical capital buffer ratio for the Bank equals to that of Hong Kong as at 31 December 2020, which amounts to 1% (2019:2%).
- (5) **Basel III leverage ratio**
The leverage ratio shown above represents the regulatory consolidated leverage ratio calculated in accordance with the Banking (Capital) Rules. The exposure measure for 31 December 2020 was reduced from that as at 30 September 2020 due mainly to the decrease in the size of the consolidated statement of financial position following a further decrease in the level of customer's deposits during the fourth quarter of 2020. This decrease in exposure measures of the regulatory consolidated group was the predominant cause of the higher leverage ratio as at 31 December 2020.
- (6) **Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)**
The Bank, as a category 2 institution for the purpose of the Liquidity Rules, is only required to maintain and report LMR on a solo basis. As such, the Bank is not required to report LCR. The above LMRs are the quarterly average LMRs calculated as the simple average of each calendar month's average LMR of the Bank's solo position within the reporting quarters. The increase in the average LMR noted for the current quarter as compared to the last quarter was mainly due to the increased average level of settlement account balance with HKMA and the lower level of qualifying liabilities during the current quarter.
- (7) **Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)**
The Bank, being a category 2 institution for the purpose of the Liquidity Rules, is not required to report NSFR and CFR.
- (8) **Higher Loss Absorbency (HLA)**
The Bank is not designated as a domestic systematically important authorised institution and as such is not subject to the HLA requirements under the Banking (Capital) Rules. HLA ratio is not required to be reported by the Bank.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

7 Overview of Risk Management and Risk RWA (on Regulatory Consolidated Basis)

The overview of risk management and the RWA of the regulatory consolidated group as at 31 December 2020 and 30 September 2020 are disclosed in Table OVA and Template OV1 as below.

(i) Table OVA: Overview of Risk Management

While management of major risk areas is delegated to the relevant Board Committees, the full Board assumes the ultimate responsibility of overseeing and monitoring the Bank's overall risks. These Committees include Credit Committee (for credit risk), Asset & Liability Committee (for capital adequacy, liquidity, market and interest rate risk) and Risk Committee (for operational and other risks).

Both the Board and bank management fully acknowledge the Bank's low risk appetite, hence the Bank's activities are confined to a few areas which the Bank is able to identify, assess and exercise full control over the risks. Control limits on different activities are set out in the relevant policies which Board members were provided with updated copies at meetings. A risk-averse culture has been built throughout the organization, reinforced by active communications with staff, weekly management meetings and annual staff briefings on the code of conduct. All policies and operating procedures are available for handy reference by staff.

The management information system applied by the Bank permits timely and accurate position reporting for regular reviews by management and relevant staff. Positions, or anticipated positions arising from taking certain activities with resultant pressure to meet the policy Limits, will be brought to management attention promptly. Impact analysis and sensitivity analysis will be performed, and viable alternatives posted, for management decisions to mitigate the risks. For the important control limits, trigger levels below such limits are set serving as cushions allowing time for management to take actions to rectify.

Important functions and activities, as determined by the Board, are subject to periodic compliance checks. The findings are posted to senior management for information, and to the relevant functions who are required to respond with remedial plans. At the same time, Internal Audit formulates 3-year audit plans for review and acceptance by Audit Committee, and conducts audit works according to plan with results presented at Audit Committee meetings where management would respond with action time-table.

Stress tests are performed semi-annually to examine the key issues including the risk of delinquent interbank placements, deposit run-off, risk of capital adequacy from falling property values, risk in meeting the various sections of the Banking (Exposure Limits) Rules due to escalating values of property. Reverse stress tests are performed annually to examine the sufficiency of buffers in meeting the different sections under the Banking (Exposure Limits) Rules.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

7 Overview of Risk Management and Risk RWA (on Regulatory Consolidated Basis) (Continued)

(ii) Template OV1: Overview of RWA as at 31 December 2020 (Unaudited - on Regulatory Consolidated Basis)

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		31-Dec-20	30-Sep-20	31-Dec-20
		HK\$'000	HK\$'000	HK\$'000
1	Credit risk for non-securitization exposures	639,328	642,569	51,146
2	Of which STC approach	-	-	-
2a	Of which BSC approach	639,328	642,569	51,146
3	Of which foundation IRB approach	-	-	-
4	Of which supervisory slotting criteria approach	-	-	-
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	-	-	-
7	Of which SA-CCR	N/A	N/A	N/A
7a	Of which CEM	-	-	-
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	-	-	-
10	CVA risk	-	-	-
11	Equity positions in banking book under the simple risk-weighted method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures - LTA	N/A	N/A	N/A
13	CIS exposures - MBA	N/A	N/A	N/A
14	CIS exposures - FBA	N/A	N/A	N/A
14a	CIS exposures - combination of approaches	N/A	N/A	N/A
15	Settlement risk	-	-	-
16	Securitization exposures in banking book	-	-	-
17	Of which SEC-IRBA	-	-	-
18	Of which SEC-ERBA	-	-	-
19	Of which SEC-SA	-	-	-
19a	Of which SEC-FBA	-	-	-
20	Market risk	-	-	-
21	Of which STM approach	-	-	-
22	Of which IMM approach	-	-	-
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)	N/A	N/A	N/A
24	Operational risk	55,200	56,113	4,416
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	171,361	173,212	13,709
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	171,361	173,212	13,709
27	Total	523,167	525,470	41,853

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

7 Overview of Risk Management and Risk RWA (on Regulatory Consolidated Basis) (Continued)

(ii) Template OV1: Overview of RWA as at 31 December 2020 (Unaudited - on Regulatory Consolidated Basis) (Continued)

Note:

(1) N/A: Not applicable

(2) The slight decrease noted in the credit risk for non-securitization exposures calculated on BSC approach between the above two periods was mainly the net result of an overall lower level of interbank placements of the Bank (resulted from lower customers' deposits level) but offset by the higher level of loans outstanding as the end of the current period.

8 Linkages between Financial Statements and Regulatory Exposures

The differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories are disclosed in Template LI 1, while the main sources of differences between regulatory exposure amounts and the carrying values in the financial statements are given in Template LI 2 below. Table LI A provides explanations of differences between accounting and regulatory exposure amounts as at 31 December 2020.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

8 Linkages between Financial Statements and Regulatory Exposures (Continued)

(i) Template LI1: Differences between Accounting and Regulatory Scopes of Consolidation and Mapping of Financial Statement Categories with Regular Risk Categories

As at 31 December 2020	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Carrying values as reported in published financial statements	Carrying values under scope of regulator consolidation	Carrying values of items:				not subject to capital requirements or subject to deduction from capital
			subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Cash and balances with banks	277,510	277,510	277,510	-	-	-	-
Placements with banks maturing between one and twelve months	180,000	180,000	180,000	-	-	-	-
Loans and advances to customers and other accounts	168,897	168,893	168,893	-	-	-	-
Investment securities measured at FVOCI	6,592	6,592	6,592	-	-	-	-
Investment in subsidiaries	-	10	10	-	-	-	-
Property, plant and equipment	101,084	101,084	101,084	-	-	-	-
Investment properties	288,000	288,000	288,000	-	-	-	-
Right-of-use assets	157	157	157				
Tax recoverable	-	-	-	-	-	-	-
Total assets	1,022,240	1,022,246	1,022,246	-	-	-	-
Liabilities							
Deposits from customers	270,042	271,062	-	-	-	-	271,062
Other liabilities and provisions	27,554	27,237	-	-	-	-	27,237
Current tax liabilities	88	88	-	-	-	-	88
Deferred tax liabilities	11,282	11,282	-	-	-	-	11,282
Total liabilities	308,966	309,669	-	-	-	-	309,669

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

8 Linkages between Financial Statements and Regulatory Exposures (Continued)

(ii) Template LI2: Main Sources of Differences Between Regulatory Exposure Amounts and Carrying Values in Financial statements

		(a)	(b)	(c)	(d)	(e)
		Total	Items subject to:			
			Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework
As at 31 December 2020		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	1,022,246	1,022,246	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	1,022,246	1,022,246	-	-	-
4	Off-balance sheet amounts	12,933	12,933	-	-	-
5	Differences due to different netting rules, other than those already included in row 2	5,737	5,737	-	-	-
6	Exposure amounts considered for regulatory purposes	1,040,916	1,040,916	-	-	-

(iii) Table LIA: Explanations of Differences Between Accounting and Regulatory Exposure Amounts as at 31 December 2020

The amounts in column (a) in Template LI1 are taken from the consolidated financial statements which have been prepared based on the consolidated results and financial data of the Bank and its five wholly owned subsidiaries made up to 31 December 2020. The five subsidiaries of the Bank are listed in note 13 of the consolidated financial statements. There are no subsidiaries which have not been included in the consolidated financial statements.

The above basis of consolidation for accounting purposes differs from the basis of consolidation for regulatory purposes, under which only three of the subsidiaries, namely, Success Land Enterprises Limited, Golden Wisdom Development Limited and Team Gold Investment Limited, are included as subsidiaries in the consolidated Group for regulatory purposes. The consolidated carrying values under the scope of regulatory consolidation are included under column (b) in Template LI1.

Differences between the amounts in columns (a) and (b) in Template LI1 are not material.

The carrying values in the consolidated financial statements and the regulatory exposure amounts are listed in Template LI2. There is no difference between these two as at 31 December 2020.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

8 Linkages between Financial Statements and Regulatory Exposures (Continued)

(iii) Table LIA: Explanations of Differences Between Accounting and Regulatory Exposure Amounts as at 31 December 2020 (Continued)

The Group does not engage in business that subject itself to counterparty credit risk framework and securitization framework. In addition, the Group has received exemption granted by HKMA for calculating market risk.

The Group adopts prudent valuation estimates for all its on and off-balance sheet items. The valuation techniques and methodology adopted by the Group has been detailed in note 3.4 of the consolidated financial statements.

(iv) The Template PV 1 of the regulatory consolidated group as at 31 December 2020 on prudent valuation adjustments is disclosed below.

Template PV1 : Prudent Valuation Adjustments as at 31 December 2020

(Unaudited - on Regulatory Consolidated Basis)

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
		Equity	Interest rates	FX	Credit	Commodities	Total	Of which: In the trading book	Of which: In the banking book
		HK\$ '000							
1	Close-out uncertainty, of which:	-	-	-	-	-	-	-	-
2	Mid-market value	-	-	-	-	-	-	-	-
3	Close-out costs	-	-	-	-	-	-	-	-
4	Concentration	-	-	-	-	-	-	-	-
5	Early termination	-	-	-	-	-	-	-	-
6	Model risk	-	-	-	-	-	-	-	-
7	Operational risk	-	-	-	-	-	-	-	-
8	Investing and funding costs						-	-	-
9	Unearned credit spreads						-	-	-
10	Future administrative costs	-	-	-	-	-	-	-	-
11	Other adjustments	-	-	-	-	-	-	-	-
12	Total adjustments	-	-	-	-	-	-	-	-

Note: The Bank is not required to make any valuation adjustments for the purpose of Banking (Capital) Rules section 4A.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

9 Capital Structure and Adequacy (on Regulatory Consolidated Basis)

The calculation of the capital ratios as at 31 December 2020 and 30 June 2020 is based on the Banking (Capital) Rules ("BCR") effective from 1 January 2014. The capital ratios represent consolidated ratios of the Bank computed in accordance with section 3(1) of the BCR.

The tables below present the composition of the regulatory capital as at 31 December 2020 and 30 June 2020 (Template CC 1) and the Statement of Financial Position based on the accounting scope of consolidation and the regulatory reporting scope respectively as at 31 December 2020 and 30 June 2020 (Template CC 2).

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)

**(i) Template CC1: Composition of Regulatory Capital as at 31 December 2020
(Unaudited - on Regulatory Consolidated Basis)**

		(a)	(b)
		Amount	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
(Presented in HK\$' 000)			
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	264,987	(1)
2	Retained earnings	399,099	(7)
3	Disclosed reserves	3,478	(3)+(4)+(5)+6)
4	Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)	N/A	N/A
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	CET1 capital before regulatory adjustments	667,564	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	-	
10	Deferred tax assets (net of associated deferred tax liabilities)	-	
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	N/A	N/A
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	N/A	N/A
22	Amount exceeding the 15% threshold	N/A	N/A

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)

**(i) Template CC1: Composition of Regulatory Capital as at 31 December 2020 (Continued)
(Unaudited - on Regulatory Consolidated Basis)**

		(a)	(b)
		Amount	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
(Presented in HK\$' 000)			
	CET1 capital: instruments and reserves		
23	of which: significant investments in the ordinary share of financial sector entities	N/A	N/A
24	of which: mortgage servicing rights	N/A	N/A
25	of which: deferred tax assets arising from temporary differences	N/A	N/A
26	National specific regulatory adjustments applied to CET1 capital	268,352	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	266,552	(3)+(8)
26b	Regulatory reserve for general banking risks	1,800	(6)
26c	Securitization exposures specified in a notice given by the MA	-	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	Total regulatory deductions to CET1 capital	268,352	
29	CET1 capital	399,212	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	<i>Capital instruments subject to phase-out arrangements from AT1 capital</i>	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	
36	AT1 capital before regulatory deductions	-	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)

**(i) Template CC1: Composition of Regulatory Capital as at 31 December 2020 (Continued)
(Unaudited - on Regulatory Consolidated Basis)**

		(a)	(b)
		Amount	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
(Presented in HK\$' 000)			
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	Total regulatory deductions to AT1 capital	-	
44	AT1 capital	-	
45	Tier 1 capital (T1 = CET1 + AT1)	399,212	
Tier 2 capital: instruments and provisions			
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	<i>Capital instruments subject to phase-out arrangements from Tier 2 capital</i>	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	<i>of which: capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,800	(6)
51	Tier 2 capital before regulatory deductions	1,800	
Tier 2 capital: regulatory deductions			
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments	-	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as "section 2 institution" under §2(1) of Schedule 4F to BCR only)	-	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
55a	Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)

**(i) Template CC1: Composition of Regulatory Capital as at 31 December 2020 (Continued)
(Unaudited - on Regulatory Consolidated Basis)**

		(a)	(b)
		Amount	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
(Presented in HK\$' 000)			
56	National specific regulatory adjustments applied to Tier 2 capital	(140,204)	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	(140,204)	[(2)+(3)+(8)]*45%
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	-	
57	Total regulatory adjustments to Tier 2 capital	(140,204)	
58	Tier 2 capital (T2)	142,004	
59	Total regulatory capital (TC = T1 + T2)	541,216	
60	Total RWA	523,167	
Capital ratios (as a percentage of RWA)			
61	CET1 capital ratio	76.31%	
62	Tier 1 capital ratio	76.31%	
63	Total capital ratio	103.45%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	8.00%	
65	of which: capital conservation buffer requirement	2.500%	
66	of which: bank specific countercyclical capital buffer requirement	1.000%	
67	of which: higher loss absorbency requirement	0.00%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	68.31%	
National minima (if different from Basel 3 minimum)			
69	National CET1 minimum ratio	N/A	N/A
70	National Tier 1 minimum ratio	N/A	N/A
71	National Total capital minimum ratio	N/A	N/A

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)

**(i) Template CC1: Composition of Regulatory Capital as at 31 December 2020 (Continued)
(Unaudited - on Regulatory Consolidated Basis)**

		(a)	(b)
		Amount	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
(Presented in HK\$' 000)			
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	N/A	N/A
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	N/A	N/A
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	1,800	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	7,992	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 capital instruments subject to phase-out arrangements	N/A	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A	N/A
82	Current cap on AT1 capital instruments subject to phase-out arrangements	-	
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on Tier 2 capital instruments subject to phase-out arrangements	-	
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	-	

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)**9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)****(i) Template CC1: Composition of Regulatory Capital as at 31 December 2020 (Continued)
(Unaudited - on Regulatory Consolidated Basis)**

Notes to the Template

	Description	Hong Kong basis	Basel III basis
9	Other intangible assets (net of associated deferred tax liabilities)	-	-
	Explanation As set out in paragraph 87 of the Basel III text issued by the Basel Committee (December 2010), mortgage servicing rights ("MSRs") may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to follow the accounting treatment of including MSRs as part of intangible assets reported in the AI's financial statements and to deduct MSRs in full from CET1 capital. Therefore, the amount to be deducted as reported in row 9 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 9 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of MSRs to be deducted to the extent not in excess of the 10% threshold set for MSRs and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		
10	Deferred tax assets (net of associated deferred tax liabilities)	-	-
	Explanation As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
	Explanation For the purpose of determining the total amount of insignificant LAC investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 18 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 18 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)

**(i) Template CC1: Composition of Regulatory Capital as at 31 December 2020 (Continued)
(Unaudited – on Regulatory Consolidated Basis)**

Notes to the Template (Continued)

	Description	Hong Kong basis	Basel III basis
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
	Explanation For the purpose of determining the total amount of significant LAC investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 19 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 19 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
	Explanation The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant LAC investments in AT1 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 39 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 39 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	-
	Explanation The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant LAC investments in Tier 2 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 54 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 54 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
Remarks: The amount of the 10% threshold and 5% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.			

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)

**(i) Template CC1: Composition of Regulatory Capital as at 30 June 2020
(Unaudited - on Regulatory Consolidated Basis)**

		(a)	(b)
		Amount	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
(Presented in HK\$' 000)			
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	264,987	(1)
2	Retained earnings	404,048	(7)
3	Disclosed reserves	3,129	(3)+(4)+(5)+(6)
4	<i>Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)</i>	N/A	N/A
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	CET1 capital before regulatory adjustments	672,164	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	-	
10	Deferred tax assets (net of associated deferred tax liabilities)	-	
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	N/A	N/A
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	N/A	N/A
22	Amount exceeding the 15% threshold	N/A	N/A

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)

(i) Template CC1: Composition of Regulatory Capital as at 30 June 2020 (Continued)
(Unaudited - on Regulatory Consolidated Basis)

		(a) Amount	(b) Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
(Presented in HK\$' 000)			
23	of which: significant investments in the ordinary share of financial sector entities	N/A	N/A
24	of which: mortgage servicing rights	N/A	N/A
25	of which: deferred tax assets arising from temporary differences	N/A	N/A
26	National specific regulatory adjustments applied to CET1 capital	271,716	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	269,916	(3)+(8)
26b	Regulatory reserve for general banking risks	1,800	(6)
26c	Securitization exposures specified in a notice given by the MA	-	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	Total regulatory deductions to CET1 capital	271,716	
29	CET1 capital	400,448	
AT1 capital: instruments			
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	<i>Capital instruments subject to phase-out arrangements from AT1 capital</i>	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	
36	AT1 capital before regulatory deductions	-	

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)
9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)
**(i) Template CC1: Composition of Regulatory Capital as at 30 June 2020 (Continued)
(Unaudited - on Regulatory Consolidated Basis)**

		(a) Amount	(b) Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
(Presented in HK\$' 000)			
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	Total regulatory deductions to AT1 capital	-	
44	AT1 capital	-	
45	Tier 1 capital (T1 = CET1 + AT1)	400,448	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	<i>Capital instruments subject to phase-out arrangements from Tier 2 capital</i>	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	<i>of which: capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,800	(6)
51	Tier 2 capital before regulatory deductions	1,800	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments	-	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as "section 2 institution" under §2(1) of Schedule 4F to BCR only)	-	

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)

**(i) Template CC1: Composition of Regulatory Capital as at 30 June 2020 (Continued)
(Unaudited - on Regulatory Consolidated Basis)**

		(a) Amount	(b) Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
(Presented in HK\$' 000)			
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
55a	Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	(141,718)	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	(141,718)	[(2)+(3)+(8)] *45%
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	-	
57	Total regulatory adjustments to Tier 2 capital	(141,718)	
58	Tier 2 capital (T2)	143,518	
59	Total regulatory capital (TC = T1 + T2)	543,966	
60	Total RWA	552,074	
Capital ratios (as a percentage of RWA)			
61	CET1 capital ratio	72.54%	
62	Tier 1 capital ratio	72.54%	
63	Total capital ratio	98.53%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	8.00%	
65	of which: capital conservation buffer requirement	2.500%	
66	of which: bank specific countercyclical capital buffer requirement	1.000%	
67	of which: higher loss absorbency requirement	0.00%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	65.54%	
National minima (if different from Basel 3 minimum)			
69	National CET1 minimum ratio	N/A	N/A
70	National Tier 1 minimum ratio	N/A	N/A
71	National Total capital minimum ratio	N/A	N/A

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)
9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)
**(i) Template CC1: Composition of Regulatory Capital as at 30 June 2020 (Continued)
(Unaudited - on Regulatory Consolidated Basis)**

		(a)	(b)
		Amount	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
(Presented in HK\$' 000)			
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	N/A	N/A
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	N/A	N/A
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	1,800	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	8,358	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 capital instruments subject to phase-out arrangements	N/A	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A	N/A
82	Current cap on AT1 capital instruments subject to phase-out arrangements	-	
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on Tier 2 capital instruments subject to phase-out arrangements	-	
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	-	

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

- 9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)**
- (i) Template CC1: Composition of Regulatory Capital as at 30 June 2020 (Continued)**
(Unaudited - on Regulatory Consolidated Basis)

Notes to the Template

	Description	Hong Kong basis	Basel III basis
9	Other intangible assets (net of associated deferred tax liabilities)	-	-
	Explanation As set out in paragraph 87 of the Basel III text issued by the Basel Committee (December 2010), mortgage servicing rights ("MSRs") may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to follow the accounting treatment of including MSRs as part of intangible assets reported in the AI's financial statements and to deduct MSRs in full from CET1 capital. Therefore, the amount to be deducted as reported in row 9 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 9 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of MSRs to be deducted to the extent not in excess of the 10% threshold set for MSRs and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		
10	Deferred tax assets (net of associated deferred tax liabilities)	-	-
	Explanation As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
	Explanation For the purpose of determining the total amount of insignificant LAC investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 18 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 18 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)

**(i) Template CC1: Composition of Regulatory Capital as at 30 June 2020 (Continued)
(Unaudited - on Regulatory Consolidated Basis)**

Notes to the Template (Continued)

Note to the Template (Continued)

	Description	Hong Kong basis	Basel III basis
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
	Explanation For the purpose of determining the total amount of significant LAC investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 19 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 19 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
	Explanation The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant LAC investments in AT1 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 39 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 39 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	-
	Explanation The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant LAC investments in Tier 2 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 54 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 54 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
Remarks: The amount of the 10% threshold and 5% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.			

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)

(ii) Template CC2: Reconciliation of Regulatory Capital to Statement of Financial Position

as at 31 December 2020 (Unaudited - on Regulatory Consolidated Basis)

	Consolidated Statement of Financial Position as in published financial disclosure statement	Under regulatory scope of consolidation - Group's Statement of Financial Position	Cross- referenced to Template CC1
	As at 31 December 2020	As at 31 December 2020	
	HK\$'000	HK\$'000	
Assets			
Cash and balances with banks	277,510	277,510	
Placements with banks maturing between one and twelve months	180,000	180,000	
Loans and advances to customers and other accounts	168,897	168,893	
Investment securities at fair value through other comprehensive income	6,592	6,592	
Investment in subsidiary not consolidated for regulatory purposes	-	10	
Property, plant and equipment	101,084	101,084	
Investment properties	288,000	288,000	
Right-of-use assets	157	157	
Tax recoverable	-	-	
Total assets	1,022,240	1,022,246	
Liabilities			
Deposits from customers	270,042	271,062	
Other liabilities and provisions	27,554	27,237	
Current tax liabilities	88	88	
Deferred tax liabilities	11,282	11,282	
Total liabilities	308,966	309,669	
Shareholders' Equity			
Paid-in share capital	310,000	310,000	
<i>of which: share capital paid up in cash and capitalized from realized revaluation gains of properties</i>		264,987	(1)
<i>share capital capitalized from unrealized revaluation gains of properties</i>		45,013	(2)
Other properties revaluation reserve	2,047	2,047	(3)
Investments at FVOCI revaluation reserve	(979)	(979)	(4)
General reserve	610	610	(5)
Regulatory reserve	1,800	1,800	(6)
Retained earnings	399,796	399,099	(7)
<i>of which: unrealized revaluation gains of investment properties</i>		264,505	(8)
<i>other retained earnings and profits</i>		134,594	
Total shareholders' equity	713,274	712,577	
Total liabilities and shareholders' equity	1,022,240	1,022,246	

Note:

There are no material changes in the reconciliation between the composition of the regulatory capital and the consolidated statement of financial position as at 31 December 2020 when compared to that of 30 June 2020.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)
9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)
(ii) Template CC2: Reconciliation of Regulatory Capital to Statement of Financial Position (Continued)

as at 30 June 2020 (Unaudited - on Regulatory Consolidated Basis)

	Consolidated Statement of Financial Position as in published interim financial disclosure statement	Under regulatory scope of consolidation - Group's Statement of Financial Position	Cross- referenced to Template CC1
	As at 30 June 2020	As at 30 June 2020	
	HK\$'000	HK\$'000	
Assets			
Cash and balances with banks	321,856	321,856	
Placements with banks maturing between one and twelve months	260,929	260,929	
Loans and advances to customers and other accounts	171,021	171,019	
Investment securities at fair value through other comprehensive income	6,169	6,169	
Investment in subsidiary not consolidated for regulatory purposes	-	10	
Property, plant and equipment	100,028	100,028	
Investment properties	291,300	291,300	
Right-of-use assets	251	251	
Tax recoverable	19	19	
Total assets	1,151,573	1,151,581	
Liabilities			
Deposits from customers	401,964	402,996	
Other liabilities and provisions	19,781	19,373	
Current tax liabilities	31	21	
Deferred tax liabilities	12,014	12,014	
Total liabilities	433,790	434,404	
Shareholders' Equity			
Paid-in share capital	310,000	310,000	
<i>of which: share capital paid up in cash and capitalized from realized revaluation gains of properties</i>		264,987	(1)
<i>share capital capitalized from unrealized revaluation gains of properties</i>		45,013	(2)
Other properties revaluation reserve	2,111	2,111	(3)
Investments at FVOCI revaluation reserve	(1,392)	(1,392)	(4)
General reserve	610	610	(5)
Regulatory reserve	1,800	1,800	(6)
Retained earnings	404,654	404,048	(7)
<i>of which: unrealized revaluation gains of investment properties</i>		267,805	(8)
<i>other retained earnings and profits</i>		136,243	
Total shareholders' equity	717,783	717,177	
Total liabilities and shareholders' equity	1,151,573	1,151,581	

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)**9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)**

- (iii) The main features of the regulatory capital instruments (Table CCA) as at 31 December 2020 and 30 June 2020 are disclosed below:

Tai Sang Bank Limited

Table CCA: Main Features of Regulatory Capital Instruments as at 31 December 2020 and 30 June 2020

1	Issuer	Tai Sang Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable
3	Governing law(s) of the instrument	Laws of Hong Kong
	<i>Regulatory treatment</i>	
4	Transitional Basel III rules [#]	Not applicable
5	Post-transitional Basel III rules ⁺	Common Equity Tier 1
6	Eligible at solo*/group/group & solo	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HKD 265 (Mn)
9	Par value of instrument	HKD 1
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1954, 1969, 1990, 2001, 2010
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend/coupon	Floating dividend
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

9 Capital Structure and Adequacy (on Regulatory Consolidated Basis) (Continued)

(iv) Footnote:

Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

+ Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

* Include solo-consolidated

Full terms and conditions of the Bank's CET1 capital instruments are disclosed in the website of the Bank.

10 Countercyclical Capital Buffer Ratio (on Regulatory Consolidated Basis)

The details of the Bank's countercyclical capital buffer ratios as at 31 December 2020 and 30 June 2020 are disclosed in Template CCyB 1 below:

Template CCyB1: Geographical Distribution of Credit Exposures Used in Countercyclical Capital Buffer ("CCyB") as at 31 December 2020

At 31 December 2020		(a)	(c)	(d)	(e)
	Geographical breakdown by Jurisdiction (J)	Applicable CCyB ratio in effect %	RWA used in computation of CCyB ratio HK\$ '000	AI-specific CCyB ratio %	CCyB amount HK\$ '000
1	Hong Kong SAR	1.000%	163,747		
	Total		163,747	1.000%	1,637

At 30 June 2020		(a)	(c)	(d)	(e)
	Geographical breakdown by Jurisdiction (J)	Applicable CCyB ratio in effect %	RWA used in computation of CCyB ratio HK\$ '000	AI-specific CCyB ratio %	CCyB amount HK\$ '000
1	Hong Kong SAR	1.000%	166,281		
	Total		166,281	1.000%	1,663

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

10 Countercyclical Capital Buffer Ratio (on Regulatory Consolidated Basis) (Continued)

Note: The above templates show the CCyB ratios of the Bank computed on the consolidated basis as at 31 December 2020 and 30 June 2020. As the Bank only operates and has private sector credit exposures in Hong Kong, the overall countercyclical capital buffer ratio was the same as the jurisdiction countercyclical capital buffer ratio of Hong Kong, that is, 1% as at 31 December 2020. There have been no material changes in the geographical breakdown of the credit exposures of the Bank during the current semi-annual reporting period.

11 Leverage Ratio Disclosures (on Regulatory Consolidated Basis)

The tables below represent the summary comparison table for reconciling the total consolidated assets of the Bank as stated in the financial statements as at 31 December 2020 to the leverage ratio exposure used in the computation of the leverage ratio (Template LR 1) and the leverage ratio template (Template LR 2) as at 31 December 2020 and 30 September 2020, presented in HK\$'000.

(i) Template LR1 : Summary Comparison of Accounting Assets Against Leverage Ratio ("LR") as at 31 December 2020 (Unaudited - on Regulatory Consolidated Basis)

		(a)
	Item	Value under the LR framework HK\$'000 equivalent
1	Total consolidated assets as per published financial statements	1,022,240
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	10
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative contracts	-
5	Adjustment for SFTs (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	-
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	-
7	Other adjustments	5,733
8	Leverage ratio exposure measure	1,027,983

Note: There are no material changes in the summary comparison reconciling items of the Bank's consolidated balance sheet assets as stated in the consolidated statement of financial position with the exposure measure for the calculation of leverage ratio for the current semi-annual reporting period.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

11 Leverage Ratio Disclosures (on Regulatory Consolidated Basis) (Continued)

(ii) Template LR2 : Leverage Ratio ("LR") as at 31 December 2020 (Unaudited - on Regulatory Consolidated Basis)

		(a)	(b)
	Item	Leverage ratio framework HK\$'000	Leverage ratio framework HK\$'000
		31-Dec-20	30-Sep-20
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	1,027,983	1,118,973
2	Less: Asset amounts deducted in determining Tier 1 capital	(313,365)	(316,729)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	714,618	802,244
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or bilateral netting)	-	-
5	Add-on amounts for PFE associated with all derivatives contracts	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivatives contracts	-	-
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives contracts	-	-
11	Total exposures arising from derivative contracts	-	-
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	12,933	16,488
18	Less: Adjustments for conversion to credit equivalent amounts	(11,640)	(14,839)
19	Off-balance sheet items	1,293	1,649
Capital and total exposures			
20	Tier 1 capital	399,212	398,742
20a	Total exposures before adjustments for specific and collective provisions	715,911	803,893
20b	Adjustments for specific and collective provisions	-	-
21	Total exposures after adjustments for specific and collective provisions	715,911	803,893
Leverage ratio			
22	Leverage ratio	55.76%	49.60%

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

11 Leverage Ratio Disclosures (on Regulatory Consolidated Basis) (Continued)

- (ii) Note: The increase of leverage ratio as at 31 December 2020 from that of 30 September 2020 was predominantly due to the lower level of leverage ratio exposure measure, which was resulted from the reduced consolidated statement of financial position following a decrease in the level of customers' deposits.

12 Liquidity Disclosures

(i) Table LIQA Liquidity Risk Management

Governance of Liquidity Risk Management

The Bank has a low liquidity risk tolerance and ensures that funds are always available to meet obligations fully as they come due, particularly for customers' deposits which should be fully covered by highly liquid treasury funds.

The Board of Directors assumes the ultimate authority in the approving the liquidity management policy of the Bank. Day-to-day management of the Bank's liquidity position is delegated to senior management, whose operation is closely monitored by ALCO. Internal liquidity position reporting is prepared by the Bank's accounting department and reported to senior management on a daily basis and to ALCO at every ALCO meeting. Internal trigger limits are set for the effective monitoring of the liquidity position. Upon review by ALCO of the liquidity positions, it assesses in light of prevailing market condition, if the Bank's liquidity management strategy or guidelines are required to be amended.

The Liquidity Risk Management Policy of the Bank as approved by the Board and liquidity management strategy as determined by ALCO from time to time are communicated to relevant operational departments within the Bank during periodic meetings held among the departments and senior management.

Funding Strategy

While efforts have been made to promote depositors' loyalty to maintain funding stability from customers' deposits, bank management constantly reviews market situation and explores suitable funding sources such as term depositary products and establishing correspondent banking relationships with other financial institutions, both locally and overseas, with an aim to provide reciprocal funding arrangements or standby funding lines.

Liquidity Risk Mitigation

To mitigate its liquidity risk, the Bank maintains an adequate level of overnight funds at interbank or settlement account. It also aims to maintain an adequate cushion of high quality liquid assets.

Stress Testing on Liquidity Risk

Stress testing on liquidity positions are performed on a quarterly basis and presented to ALCO for review. The liquidity stress testing exercise includes scenarios covering an institution-specific crisis scenario for the Bank and a general market crisis scenario. ALCO examines the liquidity stress testing results to decide if the minimum number of days necessary for the Bank to arrange emergency funding support is satisfactory to the needs of the Bank and formulate the necessary strategies to address the cash flow needs reflected from the scenario analysis. ALCO also determines if the mix of the Bank's holding in liquefiable assets has to be adjusted based on the outcome of the stress testing.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)**12 Liquidity Disclosures (Continued)****(i) Table LIQA Liquidity Risk Management (Continued)**Contingency Funding Plan

Upon the awareness of liquidity crisis concerns, emergency ALCO and Board meetings would be called to decide on the ways that the Bank's liquidity position can be improved, including, but not limited to the following possible means: cancellation of undrawn customers' overdrafts facilities, calling back of customers' overdrafts / loans outstanding, availability of un-used interbank funds that could be utilized, negotiating with major depositors for increasing their deposits with the Bank, pledging of appropriate assets of the Bank for funding facilities, convincing major shareholders to place deposits with the Bank or making additional capital injection. Prompt decisions are to be made by ALCO and the Board. Contingency funding drills are carried out periodically to test the availability of funds available for the Bank.

Maturity Profile of Balance Sheet

The maturity profile of the items in the balance sheet of the Group as at 31 December 2020 has been disclosed in note 3.3.1 to the consolidated financial statements.

- (ii) As the Bank is designated as a Category 2 institution for liquidity monitoring purposes, Template LIQ1 on liquidity coverage ratio and Template LIQ2 on net stable funding ratio are not required to be disclosed.

13 Credit Risk for Non-Securitization Exposures**(i) Table CRA General Information about Credit Risk**

The Bank is stringent in accepting credit customers and would only deal with customers whose background and financial conditions are known to our management. Tangible securities and/or strong guarantors to support credit facilities are insisted. This has given rise to a high quality credit portfolio with decades of zero loan loss.

The credit approval, review and monitoring functions are delegated by the Board to Credit Committee. Granting of new credits and renewals of existing credit are guided by Credit Policy as approved by the Board. The credit initiation and review process involve the Credit Officer who is responsible for information gathering, analysis and report preparation. New credits are subject to prior compliance clearance before the loan or credit limit would be made available to borrowers. Credit risk management and administration are examined by Internal Auditors once a year, with results reported to Audit Committee.

Credit Policy is reviewed annually, or more frequently as changes in regulatory or business environment necessitate a policy change. Revisions to Policy require concurrence of the Credit Committee and approval of the Board before taking effect. Policy limits are established upon referencing the regulatory requirements, market practice and our own risk tolerance.

Weekly meetings are held among senior management to review the performance of each existing credit exposure and new credit applications. Members of Credit Committee meet monthly to examine the overall portfolio, market trend and compliance-related issues. Information or connected exposures, as approved by Credit Committee members who are not connected parties, are provided to Board members at each Board meeting.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

13 Credit Risk for Non-Securitization Exposures (Continued)

(ii) Template CR1: Credit Quality of Exposures

As at 31 December 2020									
1	Loans	(a)	(b)	(c)	(d)		(e)	(f)	(g)
		Gross carrying amounts of		Allowances /impairments	Or which ECL accounting provisions for credit losses on STC approach exposures		Allocated in regulatory category of collective provision	Or which ECL accounting provisions for credit losses on IRB approach exposures	Net values
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of specific provision				
2	Debt securities	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
3	Off-balance sheet exposures	-	163,747	-	-	-	-	-	163,747
4	Total	-	-	-	-	-	-	-	-
		-	12,933	-	-	-	-	-	12,933
		-	176,680	-	-	-	-	-	176,680

As at 30 June 2020									
	(a)	(b)		(c)	(d)		(e)	(f)	(g)
	Gross carrying amounts of			Allowances/ impairments	Or which ECL accounting provisions for credit losses on STC approach exposures		Allocated in regulatory category of collective provision	Or which ECL accounting provisions for credit losses on IRB approach exposures	Net values
	Defaulted exposures	Non-defaulted exposures			Allocated in regulatory category of specific provision				
1	Loans	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2	Debt securities	-	166,281	-	-	-	-	-	166,281
3	Off-balance sheet exposures	-	-	-	-	-	-	-	-
4	Total	-	203	-	-	-	-	-	203
		-	166,484	-	-	-	-	-	166,484

Note: There were no material differences in the credit exposures of the Group between the positions as at 31 December 2020 and 30 June 2020.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)**13 Credit Risk for Non-Securitization Exposures (Continued)****(iii) Template CR2: Changes in Defaulted Loans and Debt Securities**

		(a)
		Amount
		HK\$'000
As at 31 December 2020		
1	Defaulted loans and debt securities at end of the previous reporting period	-
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-defaulted status	-
4	Amounts written off	-
5	Other changes	-
6	Defaulted loans and debt securities at end of the current reporting period	-

		(a)
		Amount
		HK\$'000
As at 30 June 2020		
1	Defaulted loans and debt securities at end of the previous reporting period	-
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-defaulted status	-
4	Amounts written off	-
5	Other changes	-
6	Defaulted loans and debt securities at end of the current reporting period	-

Note: Our Bank does not have any defaulted loans and debt securities as at 31 December 2020 and 30 June 2020.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

13 Credit Risk for Non-Securitization Exposures (Continued)

(iv) Table CRB: Additional Disclosure Related to Credit Quality of Exposures

Exposures are considered by the Group to be past due when repayments are overdue by 3 months. Impaired exposures are those of which the discounted future cash flows using the original effective interest rate are lower than their existing carrying values. Impairment is considered when there is objective evidence of the happening of the following events, including, but not limited to:

- significant financial difficulty of the borrower;
- default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the Bank would not otherwise consider; or
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

There are no differences between the definitions of past due exposures and defaulted exposures for accounting purposes and those for regulatory purposes.

Restructured exposures are those exposures that the Group has granted concession in its repayment, such as, a longer repayment period and/or lower installment amounts, when compared to the original exposures.

The breakdown of exposures by geographical areas, industry and residual maturity as at 31 December 2020 and 31 December 2019 are given in note 3.1.11 (a), note 3.1.11 (b) and note 3.3.1 of the consolidated financial statements respectively.

The Group does not have any impaired exposures, past due exposures, defaulted exposures nor restructured exposures as at 31 December 2020 and 31 December 2019.

(v) Table CRC: Qualitative Disclosures Related to Credit Risk Mitigation

The Group accepts first legal property mortgages and listed securities as collateral for secured loans. Updated valuation of properties under mortgages are obtained at least annually for credit review purposes or when changes to the credit facility lines are proposed. Listed securities pledged to the Group are revalued on a daily basis to ensure the prudent loan-to-security value ratios have been preserved.

The carrying amounts of loans secured by mortgaged properties and listed securities amounted to HK\$151,680,068 and HK\$12,067,419, while the fair value of these mortgaged properties and shares in listed companies were HK\$685,000,000 and HK\$19,240,540 respectively as at 31 December 2020. Of the total mortgaged properties, residential properties accounted for 78.83% of the total value of such properties while commercial properties were 21.17% of total mortgaged properties. All listed securities pledged to the Group as loan collaterals were blue-chip listed equities.

The Group does not net its on- and off-balance sheet exposures.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

13 Credit Risk for Non-Securitization Exposures (Continued)

(vi) Template CR3: Overview of Recognised Credit Risk Mitigation

		(a)	(b1)	(b)	(d)	(f)
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognised collateral	Exposures secured by recognised guarantees	Exposures secured by recognised credit derivative contracts
	As at 31 December 2020	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1	Loans	151,680	-	12,067	-	-
2	Debt securities	-	-	-	-	-
3	Total	151,680	-	12,067	-	-
4	Of which defaulted	-	-	-	-	-

		(a)	(b1)	(b)	(d)	(f)
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognised collateral	Exposures secured by recognised guarantees	Exposures secured by recognised credit derivative contracts
	As at 30 June 2020	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1	Loans	166,281	-	-	-	-
2	Debt securities	-	-	-	-	-
3	Total	166,281	-	-	-	-
4	Of which defaulted	-	-	-	-	-

Note: All amounts reported in Column(a) in Template CR3 above as at 31 December 2020 and 30 June 2020 are fully secured by collaterals other than recognised Credit Risk Mitigation.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

13 Credit Risk for Non-Securitization Exposures (Continued)

(vii) Template CR4: Credit Risk Exposures and Effects of Recognised Credit Risk Mitigation – for BSC Approach

		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
As at 31 December 2020							
	Exposure classes	HK\$'000					
1	Sovereign exposures	109,970	-	109,970	-	-	0.00%
2	PSE exposures	-	-	-	-	-	0.00%
3	Multilateral development bank exposures	-	-	-	-	-	0.00%
4	Bank exposures	344,281	-	344,281	-	68,856	20.00%
5	Cash items	3,259	-	3,259	-	-	0.00%
6	Exposures in respect of failed delivery on transactions entered into on a basis other than a deliver-versus-payment basis	-	-	-	-	-	0.00%
7	Residential mortgage loans	79,196	12,000	79,196	-	79,196	100.00%
8	Other exposures	491,276	933	491,276	-	491,276	100.00%
9	Significant exposures to commercial entities	-	-	-	-	-	0.00%
10	Total	1,027,982	12,933	1,027,982	-	639,328	62.19%

		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
As at 30 June 2020							
	Exposure classes	HK\$'000					
1	Sovereign exposures	104,270	-	104,270	-	-	0.00%
2	PSE exposures	-	-	-	-	-	0.00%
3	Multilateral development bank exposures	-	-	-	-	-	0.00%
4	Bank exposures	475,263	-	475,263	-	95,053	20.00%
5	Cash items	3,252	-	3,252	-	-	0.00%
6	Exposures in respect of failed delivery on transactions entered into on a basis other than a deliver-versus-payment basis	-	-	-	-	-	0.00%
7	Residential mortgage loans	95,139	79	95,139	-	95,139	100.00%
8	Other exposures	478,481	124	478,481	-	478,481	100.00%
9	Significant exposures to commercial entities	-	-	-	-	-	0.00%
10	Total	1,156,405	203	1,156,405	-	668,673	57.82%

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

13 Credit Risk for Non-Securitization Exposures (Continued)

(vii) Template CR4: Credit Risk Exposures and Effects of Recognised Credit Risk Mitigation – for BSC Approach (Continued)

Note: The decrease in the overall level of exposures for 31 December 2020 was mainly resulted from the lower outstandings of bank exposures and sovereign exposures, which dropped by HK\$125Mn from 30 June 2020. This was caused by the smaller size of the Group's financial statements, in line with the lower level of customers' deposits. A lower level of on-balance sheet residential mortgage loans in the above templates was also noted for the current half year, which include loans and overdrafts secured by residential property mortgages, as defined by the completion instruction of the Capital Adequacy Return. The lower draw down by customers on such loans was reflected in the higher level of off-balance sheet amount, representing the undrawn line amounts.

On the other hand, other on-balance sheet exposures for the current period have increased from those as at 30 June 2020, mainly due to increase in loans outstanding, other than residential mortgage loans.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

13 Credit Risk for Non-Securitization Exposures (Continued)

(viii) Template CR5: Credit Risk Exposures by Asset Classes and by Risk Weights – for BSC Approach

As at 31 December 2020		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Risk Weight		0%	10%	20%	35%	50%	100%	250%	Others	Total credit risk exposures amount (post CCF and post and post CRM)
Exposure class		HK\$'000								
1	Sovereign exposures	109,970	-	-	-	-	-	-	-	109,970
2	PSE exposures	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	344,281	-	-	-	-	-	344,281
5	Cash items	3,259	-	-	-	-	-	-	-	3,259
6	Exposures in respect of failed delivery on transaction entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-
7	Residential mortgage loans	-	-	-	-	-	79,196	-	-	79,196
8	Other exposures	-	-	-	-	-	491,276	-	-	491,276
9	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-
10	Total	113,229	-	344,281	-	-	570,472	-	-	1,027,982

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

13 Credit Risk for Non-Securitization Exposures (Continued)

(viii) Template CR5: Credit Risk Exposures by Asset Classes and by Risk Weights – for BSC Approach (Continued)

As at 30 June 2020		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Risk Weight		0%	10%	20%	35%	50%	100%	250%	Others	Total credit risk exposures amount (post CCF and post and post CRM)
Exposure class		HK\$'000								
1	Sovereign exposures	104,270	-	-	-	-	-	-	-	104,270
2	PSE exposures	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	475,263	-	-	-	-	-	475,263
5	Cash items	3,252	-	-	-	-	-	-	-	3,252
6	Exposures in respect of failed delivery on transaction entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-
7	Residential mortgage loans	-	-	-	-	-	-	-	-	-
8	Other exposures	-	-	-	-	-	95,139	-	-	95,139
9	Significant exposures to commercial entities	-	-	-	-	-	478,481	-	-	478,481
10	Total	107,522	-	475,263	-	-	573,620	-	-	1,156,405

Note: Bank exposures as at end of December 2020 showed a decrease from 30 June 2020, which was resulted from the smaller balance sheet size following withdrawals of deposits made by connected customers during the current period. Overall exposures under 100% risk weight have only slightly decrease in the current half year period. The lower outstanding balance of residential mortgage loans was partially offset by the increase in loans other than residential mortgage loans as at 31 December 2020.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

14 Interest Rate Risk in Banking Book

(i) Table IRRBBA Interest Rate Risk in Banking Book - Risk Management and Objectives and Policies

Interest rate risk in the banking book ("IRRBB") is defined as the risk of loss to the Group due to possible changes in the level of interest rates impacting interest rates sensitive assets and liabilities and off-balance sheet items in the banking book of the Group.

The Group has established a Board approved policy on the risk governance management of IRRBB. The subject policy refers to elements of IRRBB management framework as advocated in the Supervisory Policy Manual IR-1 "Interest Rate Risk in the Banking Book" issued by the Hong Kong Monetary Authority. The monitoring of IRRBB of the Group is delegated by the Board to the Risk Committee, ALCO and senior management of the Bank. With Risk Committee overseeing the overall risk management framework of the Group, ALCO concentrates on direct monitoring of IRRBB via its reviews of periodic reports submitted by management on IRRBB impact and gives necessary instructions on the Group's level and type of interest rate sensitive assets and liabilities for the controlling of IRRBB of the Group. ALCO also conducts regular reviews of interest rate trends, risk profile and stress testing results.

Risk appetite in IRRBB has been thoroughly considered by the Board when approving the Group's IRRBB policy. The risk appetite has been reflected in the risk limits established by the Group and duly documented in the IRRBB policy. Such risk limits serve as the basis for on-going monitoring of the impact of possible future interest rate changes on the economic value of equity ("EVE") and net interest income ("NII").

With the current structure of the Group's HKD interest rate sensitive position being more than 95% of the total interest rate sensitive position in all currencies, the monitoring of IRRBB is effected through the compilation and review of related risk reports on the HKD interest rate sensitive positions as at the end of each calendar month. Such reports are compiled based on the same scenarios for the EVE and NII impact analysis as the regulatory returns and are submitted to ALCO at its monthly meeting for review and discussion.

In the measurement of IRRBB for both internal monitoring and regulatory reporting purposes, the Group relies on the following assumptions and characteristics of its interest rate position profile:

- (a) The Group does not provide any fixed rate retail loans.
- (b) The non-maturity deposits of the Group, including current and savings deposits, are assumed to continue into the foreseeable future. The earliest repricing date of such deposits is used to determine the impact of IRRBB on the Group.
- (c) The retail time deposits of the Group are normally subject to early redemption risk by the deposit customers. However, such risk is mitigated by a material penalty applied on time deposits for pre-maturity redemptions. The historical pattern of the Group in this regard reflects a very insignificant early withdrawal rate on retail time deposits.
- (d) The Group assesses the impact on earnings under the earnings perspective approach, based on the two standard interest rate shock scenarios while assuming a constant balance sheet.

The Group also conducts periodic stress-tests on IRRBB for the measurement of its vulnerability to loss resulted from its interest rate positions under stressed market conditions. The results of the stress-tests performed are reviewed by ALCO, which gives specific instructions on the composition and level of interest rate positions when it sees fit.

The overall risk management framework on IRRBB is subject to periodic reviews and audits conducted by the internal compliance unit and the internal auditors of the Group.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)**14 Interest Rate Risk in Banking Book (Continued)****(ii) Template IRRBB1 Quantitative Information on Interest Rate Risk in Banking Book**

The table below provides information on the adverse change in the economic value of equity ("EVE") and also the adverse change in net interest income ("NII") over the next 12 months under each of the prescribed interest rate shock scenarios in respect of the Group's interest rate exposures arising from its banking book position for the current annual reporting date as at 31 December 2020 and 31 December 2019.

	(in HK\$'000)	(a)		(c)	
		Adverse impact Δ EVE		Adverse impact Δ NII	
	Period	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
1	Parallel up	1,196	2,322	-	-
2	Parallel down	-	-	5,283	6,275
3	Steeper	-	-		
4	Flattener	1,137	2,166		
5	Short rate up	1,437	2,752		
6	Short rate down	-	-		
7	Maximum	1,437	2,752	5,283	6,275
	Period	31-Dec-20		31-Dec-19	
8	Tier 1 capital	399,212		404,895	

The prescribed interest rate shock scenarios are provided by the Hong Kong Monetary Authority in their Supervisory Policy Manual IR-1 "Interest Rate Risk in the Banking Book" and are described as follows:

1. Parallel up: A constant parallel shock up across all time buckets
2. Parallel down: A constant parallel shock down across all time buckets
3. Steeper: Short rates down and long rates up
4. Flattener: Short rates up and long rates down
5. Short rate up: Rates up are greatest at shortest time bucket and diminish towards current rates in longer time buckets
6. Short rate down: Rates down are greatest at shortest time bucket and diminish towards current rates in longer time buckets

Based on the results of the above analysis, the parallel down shock scenario would result in the most significant adverse impact on the Group's net interest income, i.e. a 48.4% (2019: 28.7%) decrease in the Group's NII. On the other hand, the short rate up scenario would cause the largest adverse impact on economic value of equity, which would lead to 0.36% (2019: 0.7%) decrease in the Tier 1 Capital at the consolidated level.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)**15 Disclosure on Remuneration****(i) Table REMA Remuneration Policy**

The Bank establishes a Remuneration Policy which governs the set up of a Remuneration Committee and formulates the principles of remuneration determination for its staff. The Remuneration Policy of the Bank promotes an overall scheme of remuneration that matches the Bank's business objectives, risk tolerance and risk management framework.

The composition and responsibility of the Group's Remuneration Committee has been set out in note 5 of the Supplementary Financial Information. During its three meetings held in the year ended 31 December 2020, the Remuneration Committee reviewed and approved the annual remuneration to be paid to the Bank's senior management (being those holding position as Deputy General Manager or above) and key personnel (being heads of key functions and manages as stipulated in Fourteenth Schedule of the Banking Ordinance) in accordance to the Bank's Remuneration Policy and Board instructions. It also approved the annual review of the Bank's Remuneration Policy where minor changes were made. The basis of determining the annual emolument adjustment payable by the Bank to its senior management and key personnel is by reference to Board approved benchmark based on public sector indicators in this area. Accordingly, employees who are responsible for risk control functions are remunerated independently of the businesses they oversee. No individual director of the Bank will be involved in decisions relating to his/her own remuneration.

The total fees paid to the members of Remuneration Committee during the year ended 31 December 2020 amounted to HK\$1,200,000 (2019: HK\$780,982) which were paid for their overall workloads and commitment to the Board as a whole.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

15 Disclosure on Remuneration (Continued)

(ii) Template REM1 Remuneration Awarded During Financial Year

At 31 December 2020		(a)	(b)
Remuneration amount and quantitative information		Senior management	Key personnel
1	Number of employees	3	6
2	Fixed remuneration		
3	Total fixed remuneration Of which: cash-based (HK\$)	3,598,326	4,379,026
4	Total remuneration	3,598,326	4,379,026

At 31 December 2019		(a)	(b)
Remuneration amount and quantitative information		Senior management	Key personnel
1	Number of employees	4	8
2	Fixed remuneration		
3	Total fixed remuneration Of which: cash-based (HK\$)	3,711,137	4,784,199
4	Total remuneration	3,711,137	4,784,199

Note: The Group only provides fixed remuneration to its senior management and key personnel in the form of salary and allowance in cash. No variable remuneration, whether in the form of cash, shares and share-linked instruments and other instruments, has been provided by the Group to its senior management and key personnel. There were no deferred remuneration nor retained remuneration, whether vested or unvested, awarded, in the form of payment or reduction through performance adjustments, to the Group's senior management and key personnel during both the years ended 31 December 2020 and 31 December 2019.

The lower level of fixed remuneration paid to senior management during the year ended 31 December 2020 corresponds to the lower number of employees classified as senior management for 2020. The internal organisation restructuring process of the Group which was carried out during 2018 and 2019, has resulted in both a higher number and a higher level of fixed remuneration for key personnel during 2019.

(iii) Template REM2 Special Payments

During the years ended 31 December 2020 and 31 December 2019, the Group did not have any new sign-ons, severance payments or guaranteed bonuses awarded to its senior management and key personnel. It has therefore not included disclosure Template REM2 on special payments, which is considered not to be relevant and would carry nil balances in such template if published.

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

15 Disclosure on Remuneration (Continued)

(iv) Template REM3 Deferred Remuneration

During the years ended 31 December 2020 and 31 December 2019, the Group did not have any outstanding deferred remuneration not pay out any deferred remuneration in any forms for its senior management and key personnel. It has therefore not included disclosure Template REM3 on deferred remuneration, which is considered not to be relevant and would carry nil balances in such template if published.

16 Disclosure Templates on Counterparty Credit Risk, Securitization Exposures and Market Risk

The Bank does not engage in any derivative transactions, securities financing transactions or securitization transactions as at and during the year ended 31 December 2020 nor has plan to engage in such transactions in the coming year, and has therefore not included any disclosure templates on counterparty credit risk and securitization exposures, which are considered not to be relevant and would carry nil balances on such templates if published.

The Bank has been exempted from the calculation of risk weighted assets for market risk and accordingly has been exempted from disclosing templates on market risk.

17 Capital charge for credit, market and operational risks

The capital ratio in note 3.5 to the financial statements represents the consolidated ratio of the position of the Bank for regulatory purposes as at 31 December 2020 and 2019 computed in accordance with the Banking (Capital) Rules.

The capital requirements for each class of exposures are summarised as follows:

(i) Capital charge for credit risk

	Capital requirement	
	2020	2019
	HK\$'000	HK\$'000
Sovereign exposures	-	2,391
Bank exposures	5,508	9,764
Residential mortgage loans	6,336	7,648
Other exposures which are not past due exposures	39,302	38,780
Total capital charge for on-balance sheet exposures	51,146	58,583
Direct credit substitutes	-	-
Trade-related contingencies	-	-
Total capital charge for off-balance sheet exposures	-	-
Total capital charge for credit risk	51,146	58,583

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SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

17 Capital charge for credit, market and operational risks (Continued)

The Bank uses the Basic Approach for calculating credit risk. This disclosure is made by multiplying the Bank's risk-weighted amount derived from the relevant calculation approach by 8%, not the Bank's actual "regulatory capital".

(ii) Capital charge for operational risk

	2020 HK\$'000	2019 HK\$'000
Capital charge for operational risk	4,416	4,406

The Bank uses the Basic Indicator Approach for calculating operational risk.

(iii) Market risk capital charge

	2020 HK\$'000	2019 HK\$'000
Market risk capital charge	-	-

The Bank was granted by the HKMA an exemption from the calculation of market risk under the exemption criteria under section 22(1) of the Banking (Capital) Rules on 22 March 2016 and has excluded market risk in the calculation of capital ratio since then and as at 31 December 2020.

18 Disclosure on Fair Value Practices on Financial Instruments for CA-S-10 Guideline issued by the HKMA

The Group holds listed equity investments measured at FVOCI which are subject to fair value measurement as stipulated in the CA-S-10 Guideline issued by the HKMA. The valuation technique used by the Group to value the subject listed equity investments measured at FVOCI has been set out in note 3.4 of the Notes to the Consolidated Financial Statements while the sensitivity analysis of such investments are detailed in note 3.2.1 of the Notes to the Consolidated Financial Statements.

The Group uses prices quoted at the stock exchanges for each of the listed equity investments measured at FVOCI to mark the investments to their fair values on periodic basis. The fair value measurement and calculation process is performed by a department independent of the risk taking unit and is subject to stringent controls supervised by senior management of the Group. The fair values of the listed equity investments measured at FVOCI are reviewed regularly by senior management and the Board.

APPENDIX

TAI SANG BANK LIMITED

(incorporated in Hong Kong with limited liability)

**DETAILED INCOME STATEMENT OF THE BANK (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2020**

(FOR MANAGEMENT INFORMATION PURPOSES ONLY)

	2020 HK\$	2019 HK\$
Income		
Interest	12,659,966	24,566,491
Rental less outgoings	3,855,003	4,635,731
Air-conditioning and management fees	944,929	1,067,257
Handling charges	134,986	131,025
Dividends	109,496	466,600
Commission	-	3,083
Safe deposit box rental	6,431,056	6,113,883
Sundries	729,612	549,598
Net gain from trading of foreign currency	13,048	19,085
Exchange difference	16,207	(1,370)
	<u>24,894,303</u>	<u>37,551,383</u>
Expenses		
Operating - mainly interest	1,785,239	2,752,923
Office and administration	22,779,810	23,572,091
Depreciation – property, plant and equipment	1,648,791	1,006,193
Loss on disposal of property, plant and equipment	14,064	2,058
Net investment loss on disposal of debt investments	60,505	-
Revaluation deficit on investment properties	6,400,000	4,700,000
	<u>32,688,409</u>	<u>32,033,265</u>
(Loss)/profit before income tax	<u>(7,794,106)</u>	<u>5,518,118</u>