Report of the Directors and Audited Financial Statements

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

31 December 2020

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

REPORTS AND AUDITED FINANCIAL STATEMENTS

CONTENTS

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of Allied Banking Corporation (Hong Kong) Limited (the "Company") and its subsidiary, ACR Nominees Limited (collectively referred to as the "Group") for the year ended 31 December 2020.

Principal activities

The principal activity of the Company is commercial banking business, predominantly in Hong Kong, which includes deposit-taking, lending and trade financing, documentary credits, money market and foreign exchange operations. The principal activities of the subsidiary are to provide management and general corporate services. There were no significant changes in the nature of the Group's principal activities during the year.

Business review

A resolution had been passed by the shareholders on 17 June 2016, the Company is not to prepare the Business Review required by the Schedule 5 of the Company Ordinance for the financial year ended on 31 December 2016 and every subsequent financial year until revoked by a subsequent Special Resolution to take effect.

Results and dividends

The Group's profit for the year ended 31 December 2020 and the Group's financial position at that date are set out in the financial statements on pages 5 to 61.

Preference shares dividend of 2020: HK$1,035,000 (2019: HK$1,035,000) has been accrued.

The directors do not recommend the payment of any dividend to ordinary shareholders in respect of current year.

Share capital

There was no movement in the Company's issued capital during the year.

Directors

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

Lucio Chua TAN	(Chairman)
KWAN Kie Yip	
Regnar C. RIVERA	(deceased on 3 June 2020)
Lourdes A. SALAZAR	
LIM Bee Lu S.	
Harry Chua TAN	
Michael Gonzales TAN	

Independent non-executive director

FOK Kam Chu John	(resigned on 31 December 2020)
CHONG Kim Chan Kenneth	
Patrick Lim GO	

In accordance with article 10A of the Company's articles of association, all remaining directors shall retire from office at every annual general meeting and shall be eligible for re-election.

The persons who were directors of the subsidiary of the Company during the year and up to the date of this report (not including those directors listed above) were as follows:

Allied Banking Corporation (Hong Kong) Limited

CHAN Tak Kan	(resigned on 1 January 2021)
KO Wai Chun, Andy	

Directors' interests in transactions, arrangements or contracts

No director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, the holding company of the Company, or the Company's subsidiary or fellow subsidiaries was a party during the year.

Directors' rights to acquire shares and debentures

At no time during the year were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, its subsidiary or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Compliance with the Banking (Disclosure) Rules

The Company has fully complied with the applicable disclosure requirements of the Banking (Disclosure) Rules.

Auditors

Ernst & Young retire and a resolution for the reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Lourdes A. SALAZAR
Hong Kong
28 April 2021

Ernst & Young
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Independent auditor's report
To the members of Allied Banking Corporation (Hong Kong) Limited
新聯銀行(香港)有限公司
(Incorporated in Hong Kong with limited liability)

Opinion
We have audited the consolidated financial statements of Allied Banking Corporation (Hong Kong) Limited (the "Company") and its subsidiary (the "Group") set out on pages 5 to 61 which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Information other than the consolidated financial statements and auditor's report thereon
The directors of the Company are responsible for the other information. The other information comprises the information included in the report of the directors and unaudited supplementary financial information.

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. 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 the directors for the consolidated financial statements
The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by 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 of the Company 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 of the Company either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

EY 安永

Independent auditor's report (continued)
To the members of Allied Banking Corporation (Hong Kong) Limited
新聯銀行(香港)有限公司
(Incorporated in Hong Kong with limited liability)

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. Our report is made 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 HKSAs 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 HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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.

Ernst & Young

Certified Public Accountants
Hong Kong
28 April 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2020

	Notes	2020 HK$	2019 HK$
INTEREST INCOME ON			
Loans and receivables		51,957,167	56,159,153
Deposits with other banks		2,216,818	10,103,887
		54,173,985	66,263,040
INTEREST EXPENSE ON DEPOSIT LIABILITIES		(6,394,795)	(7,669,036)
NET INTEREST INCOME		47,779,190	58,594,004
OTHER OPERATING INCOME	7	9,983,444	10,500,451
OPERATING INCOME		57,762,634	69,094,455
OPERATING EXPENSES	8	(34,803,621)	(36,296,234)
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES		22,959,013	32,798,221
NET WRITEBACK OF IMPAIRMENT PROVISION	15	1,351,231	1,073,480
PROFIT BEFORE TAX		24,310,244	33,871,701
INCOME TAX	10	(3,739,787)	(5,439,662)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		20,570,457	28,432,039
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO MEMBERS		20,570,457	28,432,039

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2020

	Notes	2020 HK$	2019 HK$
ASSETS			
Cash and cash equivalents	12	311,524,983	294,529,888
Placements with banks and other financial institutions maturing between one and twelve months	13	101,193,408	116,682,875
Derivative financial instruments	14	822,767	5,315
Advances and other accounts	16	1,101,907,628	1,186,893,978
Trade bills		561,540	-
Investment property	17	78,500,000	81,000,000
Property and equipment	19	25,977,873	27,036,058
Total assets		1,620,488,199	1,706,148,114
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and balances of banks and other financial institutions		26,277,400	25,364,029
Deposits from customers	22	1,022,108,054	1,123,731,630
Derivative financial instruments	14	70,536	2,095,837
Other accounts and payables		15,853,504	13,752,046
Current tax liabilities		519,255	5,010,030
Deferred tax liabilities	20	1,411,994	1,482,543
Total liabilities		1,066,240,743	1,171,436,115
EQUITY			
Share capital	23	185,700,000	185,700,000
Reserves		368,547,456	349,011,999
Total equity		554,247,456	534,711,999
Total liabilities and equity		1,620,488,199	1,706,148,114

The consolidated financial statements on pages 5 to 61 were approved and authorised for issue by the Board of Directors on 28 April 2021 and are signed on its behalf by:

Lourdes A. SALAZAR

KWAN Kie Yip

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2020

			Reserves					
	Notes	Share capital HK$ (Note 23)	General reserve HK$	Impairment reserve HK$	Retained profits HK$	Total reserves HK$	Total HK$
At 1 January 2019		185,700,000	7,000,000	10,753,032	303,861,928	321,614,960	507,314,960
Profit for the year		-	-	-	28,432,039	28,432,039	28,432,039
Total comprehensive income for the year		-	-	-	28,432,039	28,432,039	28,432,039
2019 preference shares dividend	11	-	-	-	(1,035,000)	(1,035,000)	(1,035,000)
		185,700,000	7,000,000	10,753,032	331,258,967	349,011,999	534,711,999
Transfer from retained profits		-	-	244,172	(244,172)	-	-
At 31 December 2019 and 1 January 2020		185,700,000	7,000,000	10,997,204	331,014,795	349,011,999	534,711,999
Profit for the year		-	-	-	20,570,457	20,570,457	20,570,457
Total comprehensive income for the year		-	-	-	20,570,457	20,570,457	20,570,457
2020 preference shares dividend	11	-	-	-	(1,035,000)	(1,035,000)	(1,035,000)
		185,700,000	7,000,000	10,997,204	350,550,252	368,547,456	554,247,456
Transfer to retained profits		-	-	(5,498,602)	5,498,602	-	-
At 31 December 2020		185,700,000	7,000,000	5,498,602	356,048,854	368,547,456	554,247,456

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2020

	Notes	2020 HK$	2019 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		24,310,244	33,871,701
Adjustments for:			
Net writeback of impairment provision	15	(1,351,231)	(1,073,480)
Depreciation	8	1,222,480	1,213,223
Gain on disposal of property and equipment	7	(37,996)	(2,995)
Loss/(Gain) on change in fair value of an investment property	7,8,17	2,500,000	(1,000,000)
		26,643,497	33,008,449
(Increase)/Decrease in placements with banks and other financial institutions with maturity more than three months when acquired		(25,669,247)	84,973,949
Increase in trade bills		(561,540)	-
Decrease/(Increase) in advances and other accounts		86,336,638	(395,072)
(Increase)/Decrease in derivative financial instruments		(2,842,753)	2,000,711
Increase/(Decrease) in deposits and balances of banks and other financial institutions		913,371	(2,568,079)
Decrease in deposits from customers		(101,623,576)	(82,044,240)
Increase in other accounts and payables		2,101,458	839,354
		(14,702,152)	35,815,072
Hong Kong profits tax paid		(8,301,112)	(1,559,791)
NET CASH FLOWS USED IN OPERATING ACTIVITIES		(23,003,264)	34,255,281
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property and equipment	19	(164,299)	(40,700)
Proceeds from disposal of items of property and equipment		38,000	3,000
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(126,299)	(37,700)
CASH FLOWS FROM FINANCING ACTIVITY			
Dividends paid to preference shareholders	11	(1,035,000)	(1,035,000)
NET CASH FLOWS USED IN FINANCING ACTIVITY		(1,035,000)	(1,035,000)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(24,164,563)	33,182,581
Cash and cash equivalents at beginning of year		352,771,665	319,589,084
CASH AND CASH EQUIVALENTS AT END OF YEAR		328,607,102	352,771,665
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	12	311,532,686	294,539,184
Placements with banks and other financial institutions repayable within three months when acquired		17,074,416	58,232,481
Cash and cash equivalents as stated in the consolidated statement of cash flows		328,607,102	352,771,665

1. CORPORATE INFORMATION

The Company is a private limited company incorporated in Hong Kong and is licensed as a restricted license bank under the Hong Kong Banking Ordinance. The address of the registered office and the principal place of business is 1402 World-Wide House, 19 Des Voeux Road Central, Hong Kong.

The Company engaged in commercial banking business during the year. In the opinion of the directors, the holding company and the ultimate holding company of the Company is Philippine National Bank (PNB) which is incorporated in the Republic of the Philippines.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment property and derivative financial instruments, which have been measured at fair values. These financial statements are presented in Hong Kong dollars (HK$) and all values are rounded to the nearest dollar except when otherwise indicated.

Basis of consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiary (collectively referred to as the "Group") for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiary are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intragroup transactions and dividends are eliminated on consolidation in full.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3,	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7,	*Interest Rate Benchmark Reform*

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Amendments to HKAS 1 and HKAS 8,	*Definition of Material*
Amendments to HKFRS 16,	*Covid-19-related Rent Concessions*

The nature and the impact of the revised HKFRSs are described below:

(a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(c) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3,	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 5 and HKFRS 16	*Interest Rate Benchmark Reform- Phase 2*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1,	*Classification of Liabilities as Current or Non-current*[3,5]
Amendments to HKAS 16,	*Property, Plant and Equipment: Proceeds Before Intended Use*[2]
Amendments to HKAS 37,	*Onerous Contracts: Cost of Fulfilling a Contract*[2]

[1] Effective for annual periods beginning on or after 1 January 2021
[2] Effective for annual periods beginning on or after 1 January 2022
[3] Effective for annual periods beginning on or after 1 January 2023
[4] No mandatory effective date yet determined but available for adoption
[5] As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised in October 2020 to align the corresponding wording with no change in conclusion

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 are intended to replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate (EIR) to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Revenue from contract with customers is recognised upon transfer of promised goods or services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the five-step model to contracts with customers: (a.) identify contract(s) with customers, (b.) identify separate performance, (c.) determine the transaction price, (d,) allocate the transaction price, (e.) recognize revenue when the performance obligation is satisfied. The Group recognizes revenue depending on the performance obligation either point in time or over time of the contract with customers in accordance with HKFRS 15.

Revenue recognition - interest income and interest expense

Interest on financial instruments measured at amortised cost are recognised based on the effective interest method of accounting.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

The EIR is the rate that exactly discounts estimated future cash payments or receipts throughout 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 EIR, the Group estimates cash flows from the financial instrument (e.g., prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums or discounts.

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

Revenue recognition - fee and commission income

Fees earned for the provision of services over a period of time are accrued over that period, as the customer simultaneously receives and consumes the benefits provided by the Group.

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment charge are recognised on a straight-line basis over the commitment period.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are provided.

Revenue recognition - rental income

Rental income arising on leased property is accounted for on a time-proportion and straight-line basis over the lease terms on ongoing lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expense recognition
Expenses are recognised when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognised simultaneously.

Impairment of non-financial assets
Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated.

A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of profit or loss in the period in which it arises.

Related parties
A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person
 (i) has control or joint control over the Group;
 (ii) has significant influence over the Group; or
 (iii) is a member of the key management personnel of the Group or of a parent of the Group; or
(b) the party is an entity where any of the following conditions applies:
 (i) the entity and the Group are members of the same group;
 (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 (iii) the entity and the Group are joint ventures of the same third party;
 (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 (vi) the entity is controlled or jointly controlled by a person identified in (a);

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is charged to profit or loss in the period in which it is incurred.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over their estimated useful lives. The principal annual rates used for this purpose are as follows:

Buildings	2.2% - 4%
Furniture and fixtures	20%
Office equipment	20% - 33%
Motor vehicles	20% - 25%
Leasehold land under finance lease	Over the lease terms
Leasehold improvements	Over the shorter of the lease terms and 20%

The assets' residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

The gain or loss on disposal or retirement is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in profit or loss in the year of the retirement and disposal and is recognised.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Leases

Right-of-use (ROU) assets

The Group recognises ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognised adjusted by lease payments made at or before the commencement date and lease incentives received. ROU assets are depreciated on

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Right-of-use (ROU) assets (continued)

a straight-line basis over the shorter of the lease term and the estimated useful lives of the depreciable assets. The depreciation expense is presented under 'Operating expenses' in the statement of income.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

As of 31 December 2020, the Group does not have ROU assets as it has not entered into a contract as a lessee.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

As of 31 December 2020, the Group does not have lease liabilities as it has not entered into a contract as a lessee.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset is classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Investment property

Investment properties are interests in land and building held to earn rental income and/or for capital appreciation. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of an investment property are included in the profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the profit or loss in the year of the retirement or disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement

Date of recognition

Purchases or sales of financial assets, except for derivatives, that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognised on the settlement date. Derivative financial instruments are recognised on a trade date basis. Deposits, money market placements and loans and receivables are recognised when cash is received by the Group or advanced to the borrowers.

(i) Financial assets

Initial recognition and subsequent measurement

All financial assets are initially measured at fair value. Except for financial assets or liabilities valued at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs.

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI), and FVPL. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the solely payments of principal and interest test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets at FVPL are carried in the consolidated statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses and losses in profit or loss. These net fair value changes do not include any interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" above.

Derivative financial instruments are the only Group's financial assets at FVPL.

Financial assets at amortised cost

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold the financial assets in order to collect contractual cash flows; and

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets at amortised cost (continued)

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the EIR method, less allowance for expected credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the consolidated statement of profit or loss and other comprehensive income. The expected credit losses are recognised in the consolidated statement of profit or loss and other comprehensive income under "Credit loss expenses/net write back of impairment provision".

The Group's financial assets at amortised cost includes cash and cash equivalents, placements with banks and financial institutions, advances and other accounts and trade bills.

Financial assets at FVOCI

The Group measures debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt and equity instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated income statement and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. As at 31 December 2020, the Group did not have any financial assets at FVOCI.

(i) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include deposits and balances of banks and other financial institutions, deposits from customers, derivative financial instruments and other accounts and payables.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at FVPL

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial liabilities at FVPL (continued)
Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKFRS 9 are satisfied.

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest amortisation is included in profit or loss.

Financial guarantee contracts
Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the acquisition or issuance of the guarantee, except when such contract is recognised at FVPL. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of the amortised premium and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee at the end of the reporting period.

Impairment of financial assets
The Group recognises an allowance for expected credit losses (ECL) for all debt instruments not held at FVPL. ECL represent credit losses that reflect an unbiased and probability-weighted measure of expected cash shortfalls, discounted at an approximation to the EIR which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial assets which have experienced a significant increase in credit risk (SICR) since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial assets that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial asset.

For non-credit-impaired assets:
- Stage 1 consists of all non-impaired financial assets which have not experienced a SICR since initial recognition. The Group recognizes a 12-month ECL for Stage 1 financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

For non-credit-impaired assets (continued):

- Stage 2 consists of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Group recognizes a lifetime ECL for Stage 2 financial assets.

For credit-impaired financial assets:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial assets. The ECL model requires that lifetime ECL be recognized for impaired financial assets.

The Group considers a financial asset to be in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower is more than 90 days past due on any material credit obligation to the Group or the borrower is unlikely to pay its credit obligations to the Group in full. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a financial asset as in default when (a) as result of one or more loss events, there is objective evidence that its recoverable value is less than its carrying amount; (b) it is downgraded below special mention; (c) there is delinquency in contractual payments of principal or interest; (d) significant cash flow difficulties experienced by the borrower; (e) there is breach of loan covenants or conditions; and/or (f) initiation of bankruptcy proceedings. The definition of default is largely consistent with the loan classification system required to be adopted for reporting to the HKMA for loans and advances.

The criteria for determining whether credit risk has increased include quantitative changes in probabilities of default and qualitative factors such as downgrade in the credit assessment of the borrowers and a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses and if contractual payments are more than a specified days past due threshold (i.e. 30 days), the credit risk is deemed to have increased significantly since initial recognition. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL.

Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

Measurement of ECLs

ECL is a function of the probability of default (PD), loss given default (LGD) and exposure at default (EAD), with the timing of the loss also considered, estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

These parameters will be derived from market-based approach models using internal and external data.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default within either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on available market data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Group segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology. PD estimates will be based on external data mapping with our current portfolios of exposure in order to identify the corresponding grading of the exposures.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Measurement of ECLs (continued)
LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. The Group will estimate LGD parameter based on recovery rates of claims against defaulted counterparties after netting off the value of collaterals. LGD estimates will be calibrated for different factors (our estimated cost and period of time from recovery) / scenarios, to reflect possible changes in collateral values. They will be calculated on a discounted cash flow basis using the effective interest rate as the discounting factors.

EAD is modelled on historical data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. EAD represents the loan outstanding, accrued interest receivable and contingent liabilities (not include loan commitment) in the event of a default. Since loan commitment to the borrower can be unconditionally cancellable, loan commitment is not considered as the component of EAD for calculation of ECL. The EAD of a financial asset will be the gross carrying amount at default.

Impairment allowances are recognised for losses that have incorporated forward-looking information into its measurement of expected credit losses at the end of the reporting period based on objective evidence of impairment.

Derecognition of financial assets and financial liabilities
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of profit or loss.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle, on a net basis, or to realise the assets and settle the liabilities simultaneously.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement
The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Derivative financial instruments
Derivatives are initially recognised at fair value on the date which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Cash and cash equivalents
For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents (continued)
For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and in banks, including term deposits with maturity not exceeding one month, and assets similar in nature to cash, which are not restricted as to use.

Provisions
A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in consolidated statement of profit or loss and other comprehensive income.

Income tax
Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Fiduciary assets

The assets of the staff provident funds and assets held in trust in a fiduciary capacity are not assets of the Group, and accordingly are not reported in the financial statements.

Repossessed assets

Repossessed collateral assets are accounted as "Assets held for sale" and reported in "Other assets" and the relevant loans are derecognised. The repossessed collateral assets are measured at lower of carrying amount and fair value less costs to sell.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)
difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Reserves
The reserves recorded in equity of the Group's consolidated statement of financial position include:
- General reserve – General reserve is maintained for general contingencies.
- Impairment reserve – Impairment reserve is the previous years excessive expected credit losses allowance transferred to reserve account.

Dividends
Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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

Impairment allowances on cash, placements with banks and other financial institutions and loans and advances and receivables
The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of market base approach models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading is based on external data mapping with our current portfolios of exposure in order to identify the corresponding grading of the exposures, which assigns probabilities of default to the individual grades

- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Impairment allowances on cash, placements with banks and other financial institutions and loans and advances and receivables (continued)

- The segmentation of financial assets based on risk characteristics of the customers and by product types when their ECL is assessed on a collective basis

- Development of ECL models, including the various formulas and the choice of inputs over determination of the period over which the entity is exposed to credit risk based on the behavioural life of the credit exposures, loss given default and collateral recovery of the credit exposure.

- Determination of associations between macroeconomic scenarios and, economic inputs, such as property / collateral values, and the effect on probabilities of default, exposures at default and losses given default

- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

- Considerations of the impact of COVID-19 pandemic on current portfolios of loan exposure, probability of default (PD) and loss given default (LGD).

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Fair value of investment property
Investment property is carried in the consolidated statement of financial position at their fair value. The fair value was based on a valuation on the property conducted by an independent firm of professional valuers using property valuation techniques which involve making assumptions on certain market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment property.

5. FINANCIAL RISK MANAGEMENT

The Board of Directors (the "Board") has the overall responsibility for the management of all types of risk exposures. In the delivery of its responsibility, the Board has established specialised committees to identify, measure, monitor and control different types of risks. The Board or the appropriate specialised committees review and approve policies and procedures for the identification, measurement, control and monitoring of both financial and non-financial risks. Such policies and procedures are reviewed by the relevant committees or senior management on a regular basis.

The most important types of risk are credit risk, market risk and liquidity risk. Market risk includes currency risk and interest rate risk.

The Group's total operating income, profit before taxation, total assets, total liabilities and contingent liabilities and commitments are derived predominantly from Hong Kong.

5.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. Impairment allowances are made for losses that have been incurred at

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

the end of the reporting period. Significant changes in the economy, or in the health of a particular industry segment, 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.

5.1.1. Management of credit risk

The Group's lending policies have been formulated based on its own experience, the Banking Ordinance, the Hong Kong Monetary Authority guidelines and other statutory requirements.

The Group's primary credit approval bodies are the Credit Risk Management Committee and the Executive Committee. The Credit Risk Management Committee is responsible for evaluating and monitoring lending-related activities, reviewing existing credit limits and industry limits and managing the lending portfolio and overall credit risk of the Group. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also Head of Treasury and Head of Operation, and the Senior Managers of Credit. The Executive Committee is responsible for reviewing and confirming all credit approvals. The members of the Executive Committee include the directors of the Board of the parent bank and other directors.

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

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

5.1.2 Risk mitigation policies

Some specific control and mitigation measures are outlined below.

Collateral

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

- Mortgages over properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.2 Risk mitigation policies (continued)

In addition, in order to minimise credit losses, the Group will seek additional collaterals from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

Derivatives

The Group does not carry interest and foreign exchange rate positions on its trading book. The derivatives are used to manage the Group's own exposures to market risks as part of its asset and liability management process. The principal derivatives instruments used by the Group are foreign exchange rate related contracts, which are over-the-counter derivatives. Most of the Group's foreign exchange rate contracts have been entered into to meet customer demand and manage the Group's own risk.

The Group maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), in terms of amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair values are positive), which is generally only a small fraction of the nominal value of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Group's market transactions on any single day.

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 collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisation 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 amount of loss is likely to be less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.2 Risk mitigation policies (continued)

The Group monitors the term of maturity of credit commitments because longer-term commitment generally have a greater degree of credit risk than shorter-term commitments.

5.1.3 Impairment and provisioning policies

Impairment allowances are recognised for losses that have been incorporated forward-looking information into its measurement of expected credit losses at the end of the reporting period based on objective evidence of impairment.

The Group will consider that a financial institution lending (cash and money market placement) is with low credit risk if its international credit grading is equivalent to or higher than investment grading of the relevant credit rating agent such as S&P Global Ratings Inc. or Moody's Investor Service. The Group will consider that a non-financial institution lending is with low credit risk if (a) its account performance with the Group is normal; (b) stable business prospect; (c) acceptable financial strength and (d) sound management.

The rating tool assists management to determine whether objective evidence of impairment exists under HKFRS 9, based on the criteria of "significant increase of credit risk" set out by the Group. The Group will allocate each exposure to an internal credit risk grade (5-grade loan classification) that is determined to be predictive of the risk of default. Each exposure will be allocated to an internal credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade when the risk of asset changes. The Group will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing the credit risk grade at the reporting date with the credit risk grade at the initial recognition of the exposure.

The Group will presumptively consider that a significantly increase in credit risk occurs no later than when an asset is past due more than 30 days due to (a) late payment or tight liquidity of the borrower's client, this may indicate the cash flow of the borrower may be affected which ultimately lead to expected loss of the Group; (b) consecutive decline in sales in 3 years and the net loss was booked for 3 years or more while the overall economy is not under down turn cycle; (c) deterioration of the borrower's competitive position; (d) downgrading below investment grade level; (e) deterioration in the value of collateral. It is applicable beginning 1 January 2018.

The Group will consider a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full or the borrower is more than 90 days past due on any material credit obligation to the Group. The definition of default is largely consistent with the loan classification system required to be adopted for reporting to the HKMA for loans and advances.

The Group assess whether financial asset carried at amortised cost are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.3 Impairment and provisioning policies (continued)

detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes but not limited to the following observable data:

- Delinquency in contractual payments of principal or interest
- Significant cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Downgrading below special mention

HKFRS 9 also requires the Group to record impairment allowances for ECL for money market placements. The allowances are based on the ECLs associated with the probability of default in the next twelve months or lifetime using a 3-stage approach.

5.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:

	2020 HK$	2019 HK$
ASSETS		
Cash and cash equivalents	311,524,983	294,529,888
Placements with banks and other financial institutions maturing between one and twelve months	101,193,408	116,682,875
Derivative financial instruments	822,767	5,315
Advances and other accounts	1,101,907,628	1,186,893,978
Trade bills	561,540	-
	1,516,010,326	1,598,112,056

Credit risk exposures relating to off-balance sheet items are as follows:

	2020 HK$	2019 HK$
Loan commitments	88,810,109	51,095,326
Guarantees, acceptance and other financial liabilities	3,230,357	1,640,524
	92,040,466	52,735,850

The value and type of collateral or credit enhancement required depends on an assessment of the credit risk of the counterparty. Policies and guidelines are in place to determine the eligibility of collateral for credit risk mitigation.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

The Group takes collateral as a secondary recourse to the borrower. The collateral and credit enhancements include but not limited to residential properties, income-producing real estate properties, guarantees and cash deposits.

Periodic valuations of collateral are required. Loans and advances are typically collateralised to a substantial extent with top-up clauses incorporated in the underlying agreement. The current market value of the collateral is considered during the review of the adequacy of the allowance for credit losses, among others.

For the year ended 31 December 2020, the Bank's net credit exposure arising from advances to customers after the financial effect of collateral and other credit enhancements amounted to HK$2,650,529 (2019: HK$1,928,488).

5.1.5 Credit quality

Credit quality of loans and advances to customers are summarised as follows:

	2020 HK$	2019 HK$
Neither past due nor impaired	1,067,296,144	1,139,979,450
Past due but not impaired	2,158,475	40,034,321
Impaired	26,087,734	823,367
Gross loans and advances to customers	1,095,542,353	1,180,837,138
Less: Expected credit losses		
Stage 1	(14,659)	(7,739)
Stage 3	(4,320)	(7,941)
	1,095,523,374	1,180,821,458

Advances neither past due nor impaired

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group and are summarised as follows:

At 31 December 2020

	Individual (retail customers)			Corporate entities		Total loans and advances to customers
	Overdrafts HK$	Term loans HK$	Mortgages HK$	Large corporate customers HK$	SMEs HK$	HK$
GRADES:						
1. Pass	3,502,246	125,550,000	114,547,340	-	823,696,558	1,067,296,144
Total	3,502,246	125,550,000	114,547,340	-	823,696,558	1,067,296,144

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Credit quality (continued)

At 31 December 2019

	Individual (retail customers)			Corporate entities		Total
	Overdrafts HK$	Term loans HK$	Mortgages HK$	Large corporate customers HK$	SMEs HK$	Total loans and advances to customers HK$
GRADES:						
1. Pass	16,510,675	105,500,000	135,973,899	-	881,994,876	1,139,979,450
Total	16,510,675	105,500,000	135,973,899	-	881,994,876	1,139,979,450

Advances past due but not impaired

The distribution of loans and advances to customers that were past due but not impaired are summarised as follows:

At 31 December 2020

	Individual (retail customers)			Corporate entities		Total
	Overdrafts HK$	Term loans HK$	Mortgages HK$	Large corporate customers HK$	SMEs HK$	Total loans and advances to customers HK$
Past due up to 30 days	526,186	-	7,147	-	447,630	980,963
31-60 days	-	-	-	-	-	-
61-90 days	-	-	9,473	-	-	9,473
Over 90 days	-	-	1,168,039	-	-	1,168,039
Total	526,186	-	1,184,659	-	447,630	2,158,475

At 31 December 2019

	Individual (retail customers)			Corporate entities		Total
	Overdrafts HK$	Term loans HK$	Mortgages HK$	Large corporate customers HK$	SMEs HK$	Total loans and advances to customers HK$
Past due up to 30 days	16,646	-	87,963	-	36,627,026	36,731,635
31-60 days	54,684	-	6,014	-	2,054,090	2,114,788
61-90 days	-	-	-	-	-	-
Over 90 days	-	-	1,187,898	-	-	1,187,898
Total	71,330	-	1,281,875	-	38,681,116	40,034,321

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Credit quality (continued)

Impaired advances

Advances to customers

The breakdown of the gross impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

At 31 December 2020

	Individual (retail customers)			Corporate entities		Total
	Overdrafts HK$	Term loans HK$	Mortgages HK$	Large corporate customers HK$	SMEs HK$	Total loans and advances to customers HK$
Gross impaired advance loans to customers	5,934,288	-	4,060,792	-	16,092,654	26,087,734
Impairment allowance made in respect of such advances						
- Stage 3	-	-	4,167	-	153	4,320
Fair value of collateral	8,729,335	-	8,770,665	-	22,880,000	40,380,000

At 31 December 2019

	Individual (retail customers)			Corporate entities		Total
	Overdrafts HK$	Term loans HK$	Mortgages HK$	Large corporate customers HK$	SMEs HK$	Total loans and advances to customers HK$
Gross impaired advance loans to customers	-	-	823,214	-	153	823,367
Impairment allowance made in respect of such advances						
- Stage 3	-	-	7,788	-	153	7,941
Fair value of collateral	-	-	2,200,000	-	-	2,200,000

During the year, the Group has not taken possession of collateral held as security (2019: Nil).

Loans and advances to banks

There are no individually impaired loans and advances to banks as at 31 December 2020 and 2019.

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, and modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to normal status and managed together with accounts of similar status. Restructuring policies and

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Credit quality (continued)

Loans and advances renegotiated (continued)

practices are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans.

They are retained in classified loans for as long as we do not have sufficiently good reasons to believe that the obligor will be able to sustainably meet the re-scheduled loan repayment terms.

There are no renegotiated loans that would otherwise be past due or impaired as at 31 December 2020 and 2019.

5.2 Market risk

The Group is exposed to market risk, 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, credit spreads, foreign exchange rates and equity prices.

Market risk is managed by the Asset and Liability Management Committee ("ALCO"). ALCO directs the Group's overall acquisition, allocation and pricing of funds, within the established target/guidelines, while managing and monitoring the overall treasury risk exposure. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also the Head of Treasury and Head of Operation, the Senior Managers of Credit and the Head of Marketing and the Compliance Officer.

5.2.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within the approved policy parameters by utilising forward foreign exchange contracts.

The Group does not have any significant foreign exchange risk as foreign exchange dealing is moderate. Day-to-day foreign exchange management is performed by the Treasury Management Department within the approved limits.

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. ALCO sets both overnight and intra-day positions limits and monitors the level of exposure by currencies and in total on a daily basis.

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.1 Currency risk (continued)

The following table, presented in Hong Kong dollars, indicates the concentration of currency risk at the end of the reporting period.

At 31 December 2020	US$	HK$	Euro	GBP	Other	Total
ASSETS						
Cash and cash equivalents	214,049,314	91,084,541	312,020	97,755	5,981,353	311,524,983
Placements with banks and other financial institutions between one and twelve months	55,890,149	24,490,720	-	10,389,958	10,422,581	101,193,408
Derivative financial instruments	411,383	26,345	1,803	-	383,236	822,767
Financial assets included in advances and other accounts	5,354,679	1,087,908,458	7,378,561	529	46,210	1,100,688,437
Trade bills	561,540	-	-	-	-	561,540
Total assets	276,267,065	1,203,510,064	7,692,384	10,488,242	16,833,380	1,514,791,135
LIABILITIES						
Deposits and balances of banks and other financial institutions	6,821,704	19,452,810	-	-	2,886	26,277,400
Deposits from customers	635,406,255	344,622,905	6,472,811	10,567,097	25,038,986	1,022,108,054
Derivative financial instruments	35,268	8,191	13,524	-	13,553	70,536
Other accounts and payable	270,485	15,556,297	-	-	26,722	15,853,504
Total liabilities	642,533,712	379,640,203	6,486,335	10,567,097	25,082,147	1,064,309,494
Net on-balance sheet position	(366,266,647)	823,869,861	1,206,049	(78,855)	(8,248,767)	450,481,641

At 31 December 2019	US$	HK$	Euro	GBP	Other	Total
ASSETS						
Cash and cash equivalents	193,539,452	93,557,182	360,213	94,472	6,978,569	294,529,888
Placements with banks and other financial institutions between one and twelve months	15,568,429	63,990,002	-	10,013,138	27,111,306	116,682,875
Derivative financial instruments	2,657	525	1,870	-	263	5,315
Financial assets included in advances and other accounts	13,322,653	1,164,847,910	5,190,817	754	2,124,588	1,185,486,722
Trade bills	-	-	-	-	-	-
Total assets	222,433,191	1,322,395,619	5,552,900	10,108,364	36,214,726	1,596,704,800
LIABILITIES						
Deposits and balances of banks and other financial institutions	7,474,897	17,886,303	-	-	2,829	25,364,029
Deposits from customers	628,350,713	446,173,783	5,961,789	10,212,243	33,033,102	1,123,731,630
Derivative financial instruments	1,047,919	1,035,450	2,325	-	10,143	2,095,837
Other accounts and payable	927,048	12,757,302	-	-	67,696	13,752,046
Total liabilities	637,800,577	477,852,838	5,964,114	10,212,243	33,113,770	1,164,943,542
Net on-balance sheet position	(415,367,386)	844,542,781	(411,214)	(103,879)	3,100,956	431,761,258

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.1 Currency risk (continued)

Foreign currency sensitivity
The Group and the Company are mainly exposed to US dollars. The following shows the sensitivity analysis on the Group's profit before tax of reasonably possible movement in US dollars exchange rates (i.e., 1 percent depreciation/appreciation of US dollar against HK dollar).

	2020		2019	
	Change in percent		Change in percent	
	+1	-1	+1	-1
	HK$	HK$	HK$	HK$
Profit before tax	3,662,666	(3,662,666)	4,153,674	(4,153,674)

5.2.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The 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. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.2 Interest rate risk (continued)

At 31 December 2020	Effective interest rate	Up to 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Non-interest bearing HK$	Total HK$
ASSETS								
Cash and cash equivalents	0.05%	210,044,766	-	-	-	-	101,480,217	311,524,983
Placements with banks and other financial institutions between one and twelve months	0.09%	-	33,968,923	67,224,485	-	-	-	101,193,408
Derivative financial instruments	0.00%	-	-	-	-	-	822,767	822,767
Financial assets included in advances and other accounts	4.66%	1,092,650,599	-	-	-	-	8,037,838	1,100,688,437
Trade bills	3.50%	561,540	-	-	-	-	-	561,540
Total assets		1,303,256,905	33,968,923	67,224,485	-	-	110,340,822	1,514,791,135
LIABILITIES								
Deposits and balances of banks and other financial institutions	3.93%	26,277,400	-	-	-	-	-	26,277,400
Deposits from customers	0.08%	278,707,175	313,068,418	430,332,461	-	-	-	1,022,108,054
Derivative financial instruments	0.00%	-	-	-	-	-	70,536	70,536
Other accounts and payables	0.00%	-	-	-	-	-	15,853,504	15,853,504
Total liabilities		304,984,575	313,068,418	430,332,461	-	-	15,924,040	1,064,309,494
Total interest sensitivity gap		998,272,330	(279,099,495)	(363,107,976)	-	-	94,416,782	450,481,641

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.2 Interest rate risk (continued)

At 31 December 2019	Effective interest rate	Up to 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Non-interest bearing HK$	Total HK$
ASSETS								
Cash and cash equivalents	1.76%	230,331,287	-	-	-	-	64,198,601	294,529,888
Placements with banks and other financial institutions between one and twelve months	1.81%	-	79,231,451	37,451,424	-	-	-	116,682,875
Derivative financial instruments	0.00%	-	-	-	-	-	5,315	5,315
Financial assets included in advances and other accounts	4.76%	1,180,028,409	-	-	-	-	5,458,313	1,185,486,722
Trade bills	0.00%	-	-	-	-	-	-	-
Total assets		1,410,359,696	79,231,451	37,451,424	-	-	69,662,229	1,596,704,800
LIABILITIES								
Deposits and balances of banks and other financial institutions	3.87%	25,364,029	-	-	-	-	-	25,364,029
Deposits from customers	0.61%	356,974,827	429,425,641	337,331,162	-	-	-	1,123,731,630
Derivative financial instruments	0.00%	-	-	-	-	-	2,095,837	2,095,837
Other accounts and payables	0.00%	-	-	-	-	-	13,752,046	13,752,046
Total liabilities		382,338,856	429,425,641	337,331,162	-	-	15,847,883	1,164,943,542
Total interest sensitivity gap		1,028,020,840	(350,194,190)	(299,879,738)	-	-	53,814,346	431,761,258

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.2 Interest rate risk (continued)

Interest rate sensitivity

The sensitivity analyses below are determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis point change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

	2020		2019	
	Change in basis points		Change in basis points	
	+100	-100	+100	-100
	HK$	HK$	HK$	HK$
Profit before tax	3,560,649	(3,560,649)	3,779,469	(3,779,469)

5.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

5.3.1 Management of liquidity risk

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

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

5.3.1 Management of liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its financial liabilities and derivative financial instruments. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities.

	Less than 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Undated HK$	Total HK$
At 31 December 2020							
Liabilities							
Deposits and balances of banks and other financial institutions	4,706,099	4,700,000	-	10,987,641	5,971,301	-	26,365,041
Deposits from customers	178,541,547	315,325,857	439,391,965	48,000,000	41,241,408	-	1,022,500,777
Other accounts and payables	1,907,266	1,013,868	2,515,580	872,505	-	9,544,285	15,853,504
	185,154,912	321,039,725	441,907,545	59,860,146	47,212,709	9,544,285	1,064,719,322
Derivative cash flow							
Derivative financial instruments settled on net basis	(60,895)	722,552	(43,421)	-	-	-	618,236
Total outflow	(50,502,476)	(80,034,197)	(109,833,624)	-	-	-	(240,370,297)
Total inflow	50,441,581	80,756,749	109,790,203	-	-	-	240,988,533
Derivative financial instruments settled on gross basis							
Total outflow	(15,527,200)	-	(131,861,000)	-	-	-	(147,388,200)
Total inflow	15,504,440	-	131,787,740	-	-	-	147,292,180

	Less than 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Undated HK$	Total HK$
At 31 December 2019							
Liabilities							
Deposits and balances of banks and other financial institutions	25,447,392	-	-	-	-	-	25,447,392
Deposits from customers	265,929,822	521,898,305	338,285,120	-	-	-	1,126,113,247
Other accounts and payables	1,995,016	766,722	2,084,842	1,225,732	-	7,679,733	13,752,045
	293,372,230	522,665,027	340,369,962	1,225,732	-	7,679,733	1,165,312,684
Derivative cash flow							
Derivative financial instruments settled on net basis	716	-	-	-	-	-	716
Total outflow	(1,263,176)	-	-	-	-	-	(1,263,176)
Total inflow	1,263,892	-	-	-	-	-	1,263,892
Derivative financial instruments settled on gross basis							
Total outflow	(66,286,151)	(62,732,200)	(289,825,200)	-	-	-	(418,843,551)
Total inflow	66,086,271	62,282,800	288,057,950	-	-	-	416,427,021

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

5.3.2 Off-balance sheet items

The tables below summarised the Group's off-balance sheet financial instruments by maturity based on the remaining period at the end of the reporting period to the contractual maturity date.

	Within 30 days HK$	31-90 days HK$	91-360 days HK$	Total HK$
At 31 December 2020				
Loan commitments	20,000,000	40,000,000	28,810,109	88,810,109
Guarantee, acceptances and other financial facilities	2,829,715	400,642	-	3,230,357
Total	22,829,715	40,400,642	28,810,109	92,040,466

	Within 30 days HK$	31-90 days HK$	91-360 days HK$	Total HK$
At 31 December 2019				
Loan commitments	31,795,326	14,800,000	4,500,000	51,095,326
Guarantee, acceptances and other financial facilities	1,640,524	-	-	1,640,524
Total	33,435,850	14,800,000	4,500,000	52,735,850

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

5.3.3 Analysis of assets and liabilities by remaining maturity

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

31 December 2020	On Demand HK$	Up to 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Indefinite Period HK$	Total HK$
ASSETS								
Cash and cash equivalents	101,480,217	210,044,766	-	-	-	-	-	311,524,983
Placements with banks and other financial-institutions between one and twelve months	-	-	33,968,923	67,224,485	-	-	-	101,193,408
Derivative financial instruments	-	15,581	784,926	22,260	-	-	-	822,767
Financial assets included in advances and other accounts	-	368,430,331	205,332,513	160,441,867	210,676,519	147,831,369	7,975,838	1,100,688,437
Trade bills	-	-	561,540	-	-	-	-	561,540
Total assets	101,480,217	578,490,678	240,647,902	227,688,612	210,676,519	147,831,369	7,975,838	1,514,791,135
LIABILITIES								
Deposits and balances of banks and other - financial institutions	-	4,706,099	4,700,000	-	10,900,000	5,971,301	-	26,277,400
Deposits from customers	-	178,465,767	315,068,418	439,332,461	48,000,000	41,241,408	-	1,022,108,054
Derivative financial instruments	-	27,048	-	43,488	-	-	-	70,536
Other accounts and payables	-	1,907,266	1,013,868	2,515,580	872,505	-	9,544,285	15,853,504
Total liabilities	-	185,106,180	320,782,286	441,891,529	59,772,505	47,212,709	9,544,285	1,064,309,494
Total liquidity gap	101,480,217	393,384,498	(80,134,384)	(214,202,917)	150,904,014	100,618,660	(1,568,447)	450,481,641

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

5.3.3 Analysis of assets and liabilities by remaining maturity (continued)

	On Demand HK$	Up to 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Indefinite Period HK$	Total HK$
31 December 2019								
ASSETS								
Cash and cash equivalents	64,198,602	230,331,286	-	-	-	-	-	294,529,888
Placements with banks and other financial-institutions between one and twelve months	-	-	79,231,451	37,451,424	-	-	-	116,682,875
Derivative financial instruments	-	4,265	-	1,050	-	-	-	5,315
Financial assets included in advances and other accounts	-	439,059,794	205,692,291	199,418,092	134,149,241	201,794,990	5,372,313	1,185,486,721
Trade bills	-	-	-	-	-	-	-	-
Total assets	64,198,602	669,395,345	284,923,742	236,870,566	134,149,241	201,794,990	5,372,313	1,596,704,799
LIABILITIES								
Deposits and balances of banks and other - financial institutions	-	25,364,029	-	-	-	-	-	25,364,029
Deposits from customers	-	265,497,094	520,903,374	337,331,162	-	-	-	1,123,731,630
Derivative financial instruments	-	214,837	444,200	1,436,800	-	-	-	2,095,837
Other accounts and payables	-	1,995,017	766,722	2,084,842	1,225,732	-	7,679,733	13,752,046
Total liabilities	-	293,070,977	522,114,296	340,852,804	1,225,732	-	7,679,733	1,164,943,542
Total liquidity gap	64,198,602	376,324,368	(237,190,554)	(103,982,238)	132,923,509	201,794,990	(2,307,420)	431,761,257

5. FINANCIAL RISK MANAGEMENT (continued)

5.4 Capital management

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

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

Capital adequacy ratio, computed as a ratio of total regulatory capital to the risk-weighted asset, of the Group was maintained at a level above the required minimum ratio.

Capital adequacy position and the use of regulatory capital are monitored closely by the Group's management, employing techniques based on the Banking (Capital) Rules. The required information is filed with the Hong Kong Monetary Authority on a quarterly basis in the form of a statistical return. The disclosure of capital adequacy and capital base are shown in Note 11 of Supplementary Financial Information.

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

6. FAIR VALUE MEASUREMENT

6.1 Fair values of assets and liabilities measured at fair value

Assets measured at fair value as at 31 December 2020:

	Fair value measurement using			
	Quoted prices in active market (Level 1) HK$	Significant observable inputs (Level 2) HK$	Significant unobservable inputs (Level 3) HK$	Total HK$
Recurring fair value measurements				
Financial asset				
Derivative financial instruments	-	822,767	-	822,767
	-	822,767	-	822,767
Non-financial asset				
Investment property	-	-	78,500,000	78,500,000
	-	-	78,500,000	78,500,000
Total	-	822,767	78,500,000	79,322,767

6. FAIR VALUE MEASUREMENT (continued)

6.1 Fair values of assets and liabilities measured at fair value (continued)

Liability measured at fair value as at 31 December 2020:

	Fair value measurement using			
	Quoted prices in active market (Level 1) HK$	Significant observable inputs (Level 2) HK$	Significant unobservable inputs (Level 3) HK$	Total HK$
Recurring fair value measurement				
Financial liability				
Derivative financial instruments	-	70,536	-	70,536

Assets measured at fair value as at 31 December 2019:

	Fair value measurement using			
	Quoted prices in active market (Level 1) HK$	Significant observable inputs (Level 2) HK$	Significant unobservable inputs (Level 3) HK$	Total HK$
Recurring fair value measurements				
Financial asset				
Derivative financial instruments	-	5,315	-	5,315
	-	5,315	-	5,315
Non-financial asset				
Investment property	-	-	81,000,000	81,000,000
	-	-	81,000,000	81,000,000
Total	-	5,315	81,000,000	81,005,315

Liability measured at fair value as at 31 December 2019:

	Fair value measurement using			
	Quoted prices in active market (Level 1) HK$	Significant observable inputs (Level 2) HK$	Significant unobservable inputs (Level 3) HK$	Total HK$
Recurring fair value measurement				
Financial liability				
Derivative financial instruments	-	2,095,837	-	2,095,837

6. FAIR VALUE MEASUREMENT (continued)

6.1 Fair values of assets and liabilities measured at fair value (continued)

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 (2019: Nil) and no transfers into or out of Level 3 (2019: Nil).

Level 2 derivative financial instruments include open foreign exchange spot contracts, foreign exchange forward and swap contracts. These instruments are valued by either observable foreign exchange rates, and observable or calculated forward points.

6.2 Information about Level 3 fair value measurements

The fair value of the Group's investment property is determined by adoption of direct comparison approach by Century 21 Surveyors Limited, an independent professional qualified valuer. Valuations were derived on the basis of assuming sale of the property in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market. In the course of valuation, reference has been made to comparable market transactions of properties in the same development as well as other similar developments and taking into account the general market trends and other economic factors which may reasonably affect the open market value of the investment property as at 31 December 2020 and 2019.

The table below summarises the valuation techniques used and the significant unobservable inputs valuation for the investment property held by the Group:

Description	Fair Value at 31 December 2020	Valuation Techniques	Unobservable Input
Investment Property (Note 17)			
Land & Buildings	HK$78,500,000 (31 December 2019: HK$81,000,000)	Direct comparison approach	Location: Commercial centre of Central, predominated by Class A high rise commercial building and skyscrapers Size: Gross floor area: 2,615s.f.

6.3 Financial instruments not measured at fair value

Fair values of financial assets included in advances and other accounts are based on prevailing current interest rates offered for similar financial instruments appropriate for the remaining term to maturity. The carrying amounts of such financial instruments are not materially different from their fair values.

Management has assessed that the fair values of cash and cash equivalents, placements with banks and other financial institutions, deposits and balances of banks and other financial institutions, deposits from customers and financial liabilities included in other accounts and payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

7. OTHER OPERATING INCOME

	2020 HK$	2019 HK$
Revenue from contracts with customers		
Handling fee	2,212,767	1,839,212
Service fee	2,364,000	2,370,000
Commitment charge	775,886	711,415
	5,352,653	4,920,627
Revenue from other sources		
Commission income from trade finance	213,674	289,682
Net gains arising from dealing in foreign currencies	319,653	236,579
	533,327	526,261
Other income		
Rental income	1,867,110	2,066,283
Gain on change in fair value of investment property (Note 17)	-	1,000,000
Penalty fees on deposits	148,224	567,373
Penalty fees on loans	1,046,168	421,471
Gain on disposal of office equipment	37,996	2,995
Insurance referral fee	490,561	437,678
Others	507,405	557,763
	4,097,464	5,053,563
	9,983,444	10,500,451

Handling fee and service fee are related to income from services provided by the subsidiary. Others consist of sundry income and charges recovered from customers.

8. OPERATING EXPENSES

	2020 HK$	2019 HK$
Employee benefit expense (including directors' remuneration):		
Staff cost	24,363,938	27,718,943
Retirement benefits costs	655,136	709,459
Depreciation (Note 19)	1,222,480	1,213,223
Auditor's remuneration	1,260,000	1,260,000
Premises and equipment expenses	868,005	874,129
Loss on change in fair value of investment property (Note 17)	2,500,000	-
Other operating expenses	3,934,062	4,520,480
	34,803,621	36,296,234

For the years ended 31 December 2020 and 2019, the Group had no forfeited contributions available to reduce its contribution to the pension scheme in future years.

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to section 383(1)(a) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2020 HK$	2019 HK$
Fee	-	-
Other emoluments:		
Salaries and allowances	7,682,287	7,971,370
Pension scheme contributions	-	-
	7,682,287	7,971,370
	7,682,287	7,971,370

The key management personnel of the Group comprise directors of the Company.

10. INCOME TAX

	2020 HK$	2019 HK$
Hong Kong profits tax		
Current tax	3,810,336	5,325,256
Deferred tax (Note 20)	(70,549)	114,406
	3,739,787	5,439,662

Hong Kong profits tax for the Bank has been provided at the first HK$2,000,000 at the rate of 8.25% and the remaining at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective rate is as follows:

	2020 HK$	2020 %	2019 HK$	2019 %
Profit before tax	24,310,244		33,871,701	
Tax at statutory rate of 16.5% (2019: 16.5%)	4,011,190	16.50	5,588,831	16.50
Tax relief under the two-tiered tax regime	(165,000)	(0.68)	(165,000)	(0.49)
Income not subject to tax	(376,033)	(1.55)	(297,273)	(0.88)
Expenses not deductible for tax	548,954	2.26	457,841	1.35
Recognition of previously unrecognised temporary difference	(279,324)	(1.15)	(144,737)	(0.43)
Tax charge at the Group's effective rate	3,739,787	15.38	5,439,662	16.06

11. PREFERENCE SHARES DIVIDEND

Dividend amounting to HK$1,035,000 (2019: HK$1,035,000) has been accrued for preference shares by the directors.

12. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2020 HK$	2019 HK$
Cash and bank balances	101,480,217	64,198,601
Money at call and short notice	210,052,469	230,340,583
	311,532,686	294,539,184
Less: allowance for impairment losses	(7,703)	(9,296)
Cash and cash equivalents	311,524,983	294,529,888

An analysis of changes in the ECL allowances for money at call and short notice:

	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
Balance as of 1 January 2020	9,296	-	-	9,296
Assets derecognised or repaid during the year (Note 15)	(1,593)	-	-	(1,593)
Balance at 31 December 2020	7,703	-	-	7,703

	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
Balance as of 1 January 2019	110,405	-	-	110,405
Assets derecognised or repaid during the year (Note 15)	(101,109)	-	-	(101,109)
Balance at 31 December 2019	9,296	-	-	9,296

13. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS MATURING BETWEEN ONE AND TWELVE MONTHS

This account consists of the following:

	2020 HK$	2019 HK$
Placements with banks and financial institutions	101,202,015	116,690,833
Less: allowance for impairment losses	(8,607)	(7,958)
Placements with banks and financial institutions	101,193,408	116,682,875

An analysis of changes in the ECL allowances for placement with banks and other financial institutions:

	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
Balance as of 1 January 2020	7,958	-	-	7,958
Assets derecognised or repaid during the year (Note 15)	649	-	-	649
Balance at 31 December 2020	8,607	-	-	8,607

	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
Balance as of 1 January 2019	61,434	-	-	61,434
Assets derecognised or repaid during the year (Note 15)	(53,476)	-	-	(53,476)
Balance at 31 December 2019	7,958	-	-	7,958

14. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 HK$	2019 HK$
Forward foreign currency contracts		
- Assets	822,767	5,315
- Liabilities	(70,536)	(2,095,837)

The Group entered into a variety of foreign currency forward contracts to manage its exchange rate exposures. At the end of the reporting period, all derivatives are stated at fair value determined based on valuation techniques.

14. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The total notional amount of outstanding forward foreign currency contracts to which the Group are committed, at the end of the reporting period, are as follows:

	2020 HK$	2019 HK$
Forward foreign currency contracts	388,526,849	417,690,913

15. CREDIT LOSS EXPENSES/IMPAIRMENT ALLOWANCES

The following table shows the changes in ECL on financial instruments for the year recorded in the consolidated statement of profit or loss.

	2020			
	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
Net charge for/(write-back of) credit loss expenses:				
Advances to customers	6,920	-	(1,357,207)	(1,350,287)
Cash and cash equivalents	(1,593)	-	-	(1,593)
Placements with banks and financial institutions	649	-	-	649
	5,976	-	(1,357,207)	(1,351,231)

	2019			
	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
Net charge for/(write-back of) credit loss expenses:				
Advances to customers	(266,399)	-	(652,496)	(918,895)
Cash and cash equivalents	(101,109)	-	-	(101,109)
Placements with banks and financial institutions	(53,476)	-	-	(53,476)
	(420,984)	-	(652,496)	(1,073,480)

16. ADVANCES AND OTHER ACCOUNTS

	2020 HK$	2019 HK$
Advances to customers	1,095,542,353	1,180,837,138
Less: allowance for impairment losses	(18,979)	(15,680)
	1,095,523,374	1,180,821,458
Other accounts	6,384,254	6,072,520
Advances and other accounts	1,101,907,628	1,186,893,978

16. ADVANCES AND OTHER ACCOUNTS (continued)

Other accounts include accrued interest receivable, prepayments, security deposits and other miscellaneous assets.

An analysis of changes in the gross amount of advances to customers is as follows:

	2020			
	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
Gross advances as at 1 January 2020	1,180,013,771	-	823,367	1,180,837,138
New loans/financing originated or purchased	309,368,753	-	18,996	309,387,749
Loans/financing derecognised or repaid	(394,657,971)	-	(24,000)	(394,681,971)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	(1,168,039)	1,168,039	-	-
Transfers to stage 3	(25,269,934)	-	25,269,934	-
Written-off	-	-	(563)	(563)
Balance at 31 December 2020	1,068,286,580	1,168,039	26,087,734	1,095,542,353

	2019			
	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
Gross advances as at 1 January 2019	1,177,388,408	-	2,110,175	1,179,498,583
New loans/financing originated or purchased	380,887,982	-	564	380,888,546
Loans/financing derecognised or repaid	(377,525,426)	-	(2,024,000)	(379,549,426)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	(737,193)	-	737,193	-
Written-off	-	-	(565)	(565)
Balance at 31 December 2019	1,180,013,771	-	823,367	1,180,837,138

Movement in impairment allowance on advances and other accounts

	2020			
	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
Balance as at 1 January 2020	7,739	-	7,941	15,680
New loans/financing originated or purchased	6,983	-	563	7,546
Loans/financing derecognised or repaid	(63)	-	(1,357,770)	(1,357,833)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Change arising from transfer of stage	-	-	-	-
Impact on year-end ECL exposures transferred between stages during the year	-	-	-	-
Recoveries	-	-	1,354,149	1,354,149
Written-off	-	-	(563)	(563)
Balance at 31 December 2020	14,659	-	4,320	18,979

16. ADVANCES AND OTHER ACCOUNTS (continued)

Movement in impairment allowance on advances and other accounts (continued)

	2019			
	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
Balance at 1 January 2019	274,138	-	492,875	767,013
New loans/financing originated or purchased	-	-	564	564
Loans/financing derecognised or repaid	(266,399)	-	(653,060)	(919,459)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Change arising from transfer of stage	-	-	-	-
Impact on year-end ECL exposures transferred between stages during the year	-	-	-	-
Recoveries	-	-	168,127	168,127
Written-off	-	-	(565)	(565)
Balance at 31 December 2019	7,739	-	7,941	15,680

Details of the impaired loans are as follows:

	2020 HK$	2019 HK$
Gross impaired loans	26,087,734	823,367
Less: Impairment allowances - stage 3	(4,320)	(7,941)
Net impaired loans	26,083,414	815,426
Gross impaired loans as a percentage of gross advances to customers	2.38%	0.07%

17. INVESTMENT PROPERTY

	2020 HK$	2019 HK$
Carrying amount at 1 January	81,000,000	80,000,000
Net (loss) / gain from fair value adjustment (Note 7 & 8)	(2,500,000)	1,000,000
Carrying amount at 31 December	78,500,000	81,000,000

The Group's investment property was revalued on 31 December 2020 by Century 21 Surveyors Limited, an independent professional qualified valuer, at HK$78,500,000.

The investment property is held for rental purpose. Rental income of HK$1,867,110 (2019: HK$2,066,283) is recognised in the consolidated statement of profit or loss and other comprehensive income. No operating expenses arising from the investment property is recognised.

17. INVESTMENT PROPERTY (continued)

The Group's investment property is situated in Hong Kong and held under the following lease terms:

	2020 HK$	2019 HK$
Long term lease	78,500,000	81,000,000

18. OPERATING LEASE ARRANGEMENT

Operating lease – Group as lessor

The Group has entered into a commercial lease for investment property. This non-cancellable lease has a term of 2 years with no renewal option included in the contract. There are no restrictions placed upon the lessee by entering into this lease.

Future minimum lease receivables under non-cancellable operating lease is as follows:

	2020 HK$	2019 HK$
Within one year	355,640	2,133,840
After one year but not more than five years	-	355,640
	355,640	2,489,480

19. PROPERTY AND EQUIPMENT

	Land and buildings HK$	Leasehold improvements HK$	Furniture and fixtures HK$	Office equipment HK$	Motor vehicles HK$	Total HK$
COST						
At 1 January 2019	45,145,394	1,209,576	983,993	2,407,323	712,110	50,458,396
Additions	-	-	-	40,700	-	40,700
Disposals	-	-	-	(32,240)	-	(32,240)
At 31 December 2019 and 1 January 2020	45,145,394	1,209,576	983,993	2,415,783	712,110	50,466,856
Additions	-	-	-	164,299	-	164,299
Disposals	-	-	-	(99,806)	-	(99,806)
At 31 December 2020	45,145,394	1,209,576	983,993	2,480,276	712,110	50,531,349
DEPRECIATION						
At 1 January 2019	17,649,366	1,209,567	983,956	2,169,551	237,370	22,249,810
Provided for the year	965,456	-	-	105,345	142,422	1,213,223
Eliminated on disposals	-	-	-	(32,235)	-	(32,235)
At 31 December 2019 and 1 January 2020	18,614,822	1,209,567	983,956	2,242,661	379,792	23,430,798
Provided for the year	965,456	-	-	114,602	142,422	1,222,480
Eliminated on disposals	-	-	-	(99,802)	-	(99,802)
At 31 December 2020	19,580,278	1,209,567	983,956	2,257,461	522,214	24,553,476
NET CARRYING AMOUNTS						
At 31 December 2020	25,565,116	9	37	222,815	189,896	25,977,873
At 31 December 2019	26,530,572	9	37	173,122	332,318	27,036,058

19. PROPERTY AND EQUIPMENT (continued)

The Group's land is included in property and equipment with a net carrying amount of HK$22,684,688 (2019: HK$23,541,448).

The Group's premises are situated in Hong Kong and held under the following lease terms:

	2020 HK$	2019 HK$
Long term lease	25,565,116	26,530,572

20. DEFERRED TAX LIABILITIES

The following are the deferred tax assets/(liabilities) recognised by the Group and the movement thereon during the current reporting periods.

	Accelerated tax depreciation HK$	Impairment allowance HK$	Tax losses HK$	Total HK$
At 1 January 2019	(1,441,723)	73,586	-	(1,368,137)
Deferred tax credited to profit or loss during the year (Note 10)	(49,070)	(65,336)	-	(114,406)
At 31 December 2019 and 1 January 2020	(1,490,793)	8,250	-	(1,482,543)
Deferred tax charged to profit or loss during the year (Note 10)	73,689	(3,140)	-	70,549
At 31 December 2020	(1,417,104)	5,110	-	(1,411,994)

21. INVESTMENT IN A SUBSIDIARY

	2020 HK$	2019 HK$
Unlisted shares, at cost	1,000,000	1,000,000

The wholly-owned subsidiary, ACR Nominees Limited, is a private limited company incorporated in Hong Kong. Its principal activities are to provide management and general corporate services.

The total assets and total equity reported on the financial statements of the subsidiary are as follows:

	2020 HK$	2019 HK$
Total assets	34,168,049	27,488,286
Total equity	25,281,410	21,617,468

22. DEPOSITS FROM CUSTOMERS

	2020 HK$	2019 HK$
Time, call and notice deposits	1,020,359,315	1,121,975,423
Demand deposits and current accounts	1,748,739	1,756,207
	1,022,108,054	1,123,731,630

23. SHARE CAPITAL

	2020 HK$	2019 HK$
Issued:		
12,420,925 ordinary shares fully paid	124,209,250	124,209,250
6,500,000 ordinary shares partially paid	40,790,750	40,790,750
5% non-cumulative and non-redeemable preference shares	20,700,000	20,700,000
	185,700,000	185,700,000

Note:

1. The 5% non-cumulative and non-redeemable preference shares ("Preference Shares") shall entitle the holders thereof upon winding-up to receive in priority to the holders of all other classes of shares repayment of the amount paid up or deemed to be paid up thereon but not to participate further in any surplus assets.

2. In addition, the Preference Shares shall entitle the holders to receive from the profits of the Company for each individual financial year as a first charge preference dividends at the rate 5% per annum on the amount of issued Preference Shares ("Capital"), but shall not entitle the holders to participate further in the profits of the Company.

   If the Company sustains a loss for a particular financial year, no preferential dividend will be paid for that year, or if the profit for that financial year is not sufficient to cover the full 5% preferential dividend, the profit will be paid as preferential dividend in proportion among the holders of the Capital for the time being paid up on such Preference Shares and the remaining portion of preference dividend will be treated as waived by the holders.

3. The Preference Shares shall not entitle the holders thereof to vote at any general meeting of shareholders.

24. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 HK$	2019 HK$
ASSETS		
Cash and cash equivalents	304,442,776	291,813,396
Placements with banks and other financial institutions maturing between one and twelve months	76,702,688	92,690,874
Derivative financial instruments	822,767	5,315
Advances and other accounts	1,099,312,506	1,186,114,185
Trade bills	561,540	-
Investment in a subsidiary (Note 21)	1,000,000	1,000,000
Investment property	78,500,000	81,000,000
Property and equipment	25,977,873	27,036,058
Total assets	1,587,320,150	1,679,659,828
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits and balances of banks and other financial institutions	26,277,400	25,364,029
Deposits from customers	1,022,108,054	1,123,731,630
Derivative financial instruments	70,536	2,095,837
Other accounts and payables	8,030,453	8,945,993
Current tax liabilities	455,666	4,945,265
Deferred tax liabilities	1,411,994	1,482,543
Total liabilities	1,058,354,103	1,166,565,297
EQUITY		
Share capital	185,700,000	185,700,000
Reserves	343,266,047	327,394,531
Total equity	528,966,047	513,094,531
Total liabilities and equity	1,587,320,150	1,679,659,828

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24. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:
A summary of the Company's reserves is as follows:

	General reserve HK$	Impairment reserve HK$	Retained profits HK$	Total HK$
At 1 January 2019	7,000,000	10,753,032	285,666,268	303,419,300
Transfer from retained profits	-	244,172	(244,172)	-
Total comprehensive income for the year	-	-	25,010,231	25,010,231
2019 preference shares dividend (Note 11)	-	-	(1,035,000)	(1,035,000)
At 31 December 2019 and 1 January 2020	7,000,000	10,997,204	309,397,327	327,394,531
Total comprehensive income for the year	-	-	16,906,516	16,906,516
2020 preference shares dividend (Note 11)	-	-	(1,035,000)	(1,035,000)
	7,000,000	10,997,204	325,268,843	343,266,047
Transfer to retained profits	-	(5,498,602)	5,498,602	-
At 31 December 2020	7,000,000	5,498,602	330,767,445	343,266,047

25. RELATED PARTY TRANSACTIONS

Outstanding balances with related parties:

	2020 HK$	2019 HK$
Parent bank:		
Deposits and balances of banks and other financial institutions	3,615,965	2,928,805
Fellow subsidiaries and affiliates and key personnel:		
Cash and cash equivalents	97,755	94,472
Deposits and balances of banks and other financial institutions	962,863	1,052,625
Deposits from customers	654,382,733	760,879,283

The above-mentioned outstanding balances arose from the ordinary course of business. The interest rates charges to, and by, related parties are at normal commercial rates. There have been no guarantees provided or received for any related party receivables or payables. For the ended 31 December 2020, the Group has not recorded any impairment relating to amounts owed by related parties (2019: Nil).

The remuneration of directors during the year is disclosed in Note 9 to the financial statements.

26. LOANS TO OFFICERS

No loans were granted to officers by the Company during the year pursuant to section 383(1)(d) of Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation.

27. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

HKFRS 7 requires the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the tables below.

31 December 2020

Financial assets/(liabilities) recognised at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet HKAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative financial assets	822,767	-	822,767	70,536	-	752,231
Derivative financial liabilities	(70,536)	-	(70,536)	(70,536)	-	-

31 December 2019

Financial assets/(liabilities) recognised at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet HKAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative financial assets	5,315	-	5,315	5,315	-	-
Derivative financial liabilities	(2,095,837)	-	(2,095,837)	5,315	-	(2,090,522)

28. OFF-BALANCE SHEET EXPOSURES

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment:

	2020 HK$	2019 HK$
Trade-related contingencies	3,230,357	1,640,524
Other commitments:		
With an original maturity of under one year or which are unconditionally cancellable	88,810,109	51,095,326
	92,040,466	52,735,850
Aggregate credit risk weighted amount	586,071	328,105

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults. Since loan commitment to the borrower can be unconditionally cancellable, loan commitment is not considered as the component of EAD for calculation of ECL.

(b) Derivatives financial instruments

The replacement costs and credit risk weighted amounts of the derivatives financial instrument of the Group are as follows:

	2020		2019	
	Replacement cost HK$	Credit risk weighted amount HK$	Replacement cost HK$	Credit risk weighted amount HK$
Exchange rate contracts	768,745	930,803	3,573	836,096

The replacement costs and credit risk weighted amounts of the derivatives financial instrument do not take into account the effects of bilateral netting arrangements.

29. RETIREMENT BENEFITS PLAN

The Company participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Company, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Company are offered a one-off choice to join the MPF Scheme or the ORSO Scheme.

For members of the MPF Scheme, the Company contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Company at 5% and 7% of the employee's basic salary respectively, depending on the length of service with the Company.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 April 2021.

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

Unaudited Supplementary Financial Information
For the year ended 31 December 2020

The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. The subsidiary of the Company is included within the accounting scope of consolidation but not included within the regulatory scope of consolidation. The unaudited supplementary financial information regarding corporate governance, risk management, segmental information, average liquidity ratio, foreign currency position, overdue and rescheduled assets, capital, repossessed assets and international claims disclosed pursuant to Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority as follows:

1. CORPORATE GOVERNANCE

In addition to Board of Directors Meetings, there are several governance committees formed under the Board of Directors. The roles, functions and composition of these key committees are as follows:

(i) Risk Oversight Committee - responsible for (a) assessing and making recommendations to the Board on the overall risk appetite, tolerance and risk management strategies of the Company and (b) overseeing senior management's implementation of those strategies established and approved by the Board and aligned with the Company's business objectives as well as bringing any issues to the attention of the Board.

(ii) Credit Risk Management Committee - responsible for evaluation and monitoring of lending-related activities, reviewing existing credit limits and industry limits and managing the lending portfolio and overall credit risk of the Company. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also Head of Treasury and Head of Operation and Senior Managers of Credit.

(iii) Asset and Liability Management Committee ("ALCO") - responsible for managing the Company's assets and liabilities on a functional basis. The Committee directs the Company's overall acquisition, allocation and pricing of funds, within the established target/guidelines, while managing and monitoring the overall treasury risk exposure. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also the Head of Treasury and Head of Operation, the Senior Managers of Credit and the Head of Marketing and the Compliance Officer.

(iv) The Audit Committee is an oversight body monitoring the internal control framework, risk management systems and financial reports. The Committee consists of three non-executive directors, two of whom are independent non-executives.

(v) Remuneration Committee

The Remuneration Committee of the Company comprises one non-executive director and one independent non-executive director. The Remuneration Committee was formed in June 2010 and meetings shall be held as a need basis.

The guiding principles for the remuneration framework of the Company are consistent with its ethical values, objectives, strategies and control environment and are as follows:

(a) Simplicity in providing appropriate compensation to its employees for the services they provide to the company;

(b) Fairness in its conduct to attract and retain employees with skills required to effectively manage the operations and growth of the business;

1. CORPORATE GOVERNANCE (continued)

(v) Remuneration Committee (continued)

(c) Alignment of values in the management of its remuneration system to motivate employees to perform in the best interests of the Company and its stakeholders;

(d) Transparency in the appropriate level of the organisation with specific regard to the remuneration of senior management who are responsible for oversight of the business strategy, key personnel whose duties involve the assumption of material risk on behalf of the Company; and

(e) Ensure a level of equity and consistency across its branch and subsidiaries and the Group as a whole.

The major roles and functions of the Company's Remuneration Committee are as follows:

(a) Making recommendations to the Board of Directors in respect of remuneration packages for the Company's senior management and key personnel in cases where the approval authority for such remuneration packages rests solely with the Board;

(b) Ensuring that a regular, at least annual, review of the Company's remuneration system and its operations, which includes an assessment of consistency with the guidelines, is conducted independently of management;

(c) Review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(d) Review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company; and

(e) To ensure that no director (executive or non-executive) or any of his/her associates is involved in deciding his/her own remuneration.

(vi) Managers' Committee - responsible for managing day to day operation. The members consist of Chief Executive, two Alternate Chief Executives, who are also the Head of Treasury and Head of Operation, all department heads and the Compliance Officer.

The terms of reference of the Committees, together with all the policies within the corporate governance scheme, are subject to review as necessary in order to cope with the latest development in the Banking industry as well as other changes in the regulatory environment. In addition, the Company is committed to maintain high standards of corporate governance practices and has fully complied with the module set out in the Supervisory Policy Manual entitled "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the Hong Kong Monetary Authority on 3 August 2012 throughout the financial year ended 31 December 2020.

2. RISK MANAGEMENT

The Board of Directors (the "Board") has the overall responsibility for the management of all types of risk exposures. In the delivery of its responsibility, the Board has established specialised committees to identify, measure, monitor and control different types of risks. The Board or the appropriate specialised committees review and approve policies and procedures for the identification, measurement, control and monitoring of both financial and non-financial risks. Such policies and procedures are reviewed by the relevant committees or senior management on a regular basis.

(i) Capital management

The Company has adopted a policy of maintaining a strong capital base to support its business growth. Capital adequacy ratio, computed as a ratio of total regulatory capital to the risk-weighted asset, of the Company was maintained at a level above the required minimum ratio.

(ii) Operational and legal risk

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

Executive directors, department heads, external legal counsels, and internal auditors collaborate to manage operational and legal risks through proper human resources policies, delegation of authorities, segregation of duties, and timely and accurate management information. Senior management and the Audit Committee are accountable to the Board for maintaining a strong and disciplined control environment to provide reasonable assurance that the operational and legal risks are prudently managed.

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

(iii) Reputation risk

Reputation risk is the risk to earnings or capital arising from negative public opinion.

Reputation risk is managed by ensuring proper and adequate communications and public relation efforts to foster the reputation of the Company. A risk management mechanism guided by the senior management including executive directors and senior managers has been established to manage the media exposure, handle customers' and other relevant parties' complaints and suggestions, and to ensure that new business activities and agents acting on the Company's behalf do not jeopardise the Company's reputation.

3. SEGMENTAL INFORMATION

The Company's total operating income, profit before taxation, total assets, total liabilities and contingent liabilities and commitments are derived predominantly from Hong Kong.

3. SEGMENTAL INFORMATION (continued)

The Company's gross advances to customers analysed and reported by industry sectors are as follows:

	2020 HK$'000	2020 % of Gross advances covered by collateral	2019 HK$'000	2019 % of Gross advances covered by collateral
Loans for use in Hong Kong				
Manufacturing	207,682	100%	225,424	99.47%
Building & construction				
Property investment	251,226	100%	274,797	99.47%
Civil engineering works	1,524	100%	1,727	100%
Wholesale and retail trade	239,983	100%	263,343	100%
Transport and transport equipment	21,221	100%	21,184	100%
Hotels, boarding houses & catering	2,100	100%	34,355	100%
Information technology	19,043	100%	16,678	100%
Electricity and gas	-	-	-	-
Non-stockbroking companies & individuals				
For the purchase of shares – others	92,994	100%	59,197	100%
Others	28,532	100%	26,540	100%
Professional & private Individuals				
Loans for the purchase of other residential properties	93,990	100%	106,460	100%
Loans for other business purpose	11,000	100%	11,034	100%
Loans for other private purpose	32,906	99.81%	51,380	99.83%
Trade finance	20,378	100%	22,752	100%
Loans and advances for use outside Hong Kong				
Non-bank Mainland China exposures				
Companies and individuals outside China where the credit is granted for use in China	12,119	100%	34,720	100%
Loans for use outside Hong Kong	58,256	100%	30,604	100%
	1,092,954		1,180,195	

The advances are predominantly made to customers in Hong Kong. No geographical analysis is disclosed as the Company derives the majority of its income from its commercial banking business where the customers' principal operations are in Hong Kong.

3. SEGMENTAL INFORMATION (continued)

Gross and impaired loans and advances to customers, impairment allowances, impaired loans and advances written off and collateral are analysed by industry sectors pursuant to the HKMA's guidelines as follows:

Advances to customers over 10% of the total advances by industry sectors as at 31 December 2020

	Gross loans and advances HK$'000	Impairment allowances Stage 1 HK$'000	Impairment allowances Stage 3 HK$'000	New impairment allowances charged to profit or loss HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Manufacturing	207,682	-	-	-	-	207,682	100%	-	-
Property investment	251,226	2	-	2	-	251,226	100%	10,981	-
Wholesale and retail trade	239,983	10	-	10	-	239,983	100%	-	-

Advances to customers over 10% of the total advances by industry sectors as at 31 December 2019

	Gross loans and advances HK$'000	Impairment allowances Stage 1 HK$'000	Impairment allowances Stage 3 HK$'000	New impairment allowances charged to profit or loss HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Manufacturing	225,424	8	-	-	-	224,223	99.47%	-	-
Property investment	274,797	-	-	-	-	274,797	100%	-	-
Wholesale and retail trade	263,343	-	-	-	-	263,343	100%	-	-

3. SEGMENTAL INFORMATION (continued)

Non-Bank Mainland China Exposures

The following table illustrates the disclosure required to be made in respect of the Company's Mainland China exposures to non-bank counterparties:

As at 31 December 2020

Types of Counterparties	On-balance sheet exposure HK$ '000	Off-balance sheet exposure HK$ '000	Total exposures HK$ '000
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	12,161	-	12,161
Total	12,161	-	12,161
Total assets after provision	1,587,320		
On-balance sheet exposures as percentage of total assets	0.77%		

As at 31 December 2019

Types of Counterparties	On-balance sheet exposure HK$ '000	Off-balance sheet exposure HK$ '000	Total exposures HK$ '000
PRC nationals residing outside Mainland China or entities incorporated outside mainland China where the credit is granted for use in Mainland China	34,784	-	34,784
Total	34,784	-	34,784
Total assets after provision	1,679,661		
On-balance sheet exposures as percentage of total assets	2.07%		

4. Pillar 3 Regulatory Disclosures

The Pillar 3 regulatory disclosures for 2020 which are prepared in accordance with the Banking (Disclosure) Rules and disclosure templates issued by the HKMA can be found under the "Regulatory Disclosures" Section on the Bank's website at www.abchkl.com.hk.

5. LIQUIDITY INFORMATION

	2020 %	2019 %
Average liquidity maintenance ratio		
– First quarter	53.33	44.07
– Second quarter	59.05	45.82
– Third quarter	63.39	45.31
– Fourth quarter	89.80	46.65

The Liquidity Ratio specified under section 102 of the Banking Ordinance, which was replaced by the liquidity maintenance ratio ("LMR") on 1 January 2015. LMR was complied in accordance with the Banking (Liquidity) Rules issued by the HKMA with effective from 1 January 2015 for the implementation of the Basel III capital framework.

6. LEVERAGE RATIO

	2020 %	2019 %
Leverage ratio	28.41	25.63

To comply with the Banking (Disclosure) Rules, all additional information in relation to the Company's leverage ratio are published by using the standard disclosure templates, as specified by the HKMA under the "Regulatory Disclosures" Section on the Bank's website at www.abchkl.com.hk

7. COUNTERCYCLICAL CAPITAL BUFFER RATIO

The CCyB ratio is an additional layer of CET1 Capital which takes effect as an extension of the Basel III capital conservation buffer.

The Company has reserved a capital buffer for the implementation of CCyB ratio, inclusive of CCyB ratio of 1%, to the private sector credit exposures in Hong Kong that has been applied since 1 January 2016.

The following table illustrates the geographical breakdown of risk-weighted amounts ("RWA") in relation to private sector credit exposures:

Jurisdiction (J)	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio	CCyB ratio	CCyB amount
	%	HK$ '000	%	HK$ '000
As at 31 December 2020				
Hong Kong	1.0	1,049,705		
Others	0	-		
Total		1,049,705	1.0	10,497

7. COUNTERCYCLICAL CAPITAL BUFFER RATIO (continued)

Jurisdiction (J)	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio	CCyB ratio	CCyB amount
	%	HK$ '000	%	HK$ '000
As at 31 December 2019				
Hong Kong	2.0	1,116,678		
Others	0	0		
Total		1,116,678	2.0	22,334

8. CAPITAL CONSERVATION BUFFER RATIO

Under section 3M of the Banking (Capital) Rules, the capital conservation buffer ratio for calculating the Company's buffer level is 2.5% for 2020 and 2019.

9. FOREIGN CURRENCY POSITION

2020

	AUD HK$'000	CAD HK$'000	EUR HK$'000	GBP HK$'000	JPY HK$'000	NZD HK$'000	SGD HK$'000	USD HK$'000
Spot assets	1,758	10,424	7,691	10,490	10	4,642	-	276,245
Spot liabilities	(11,915)	(8,941)	(6,485)	(10,567)	-	4,226	-	642,498
Forward purchased	10,987	-	1,286	-	-	-	-	376,008
Forward sales	-	(1,286)	(2,667)	-	-	-	-	11,506
Net long/(short) position	830	197	(175)	(77)	10	416	-	(1,751)

2019

	AUD HK$'000	CAD HK$'000	EUR HK$'000	GBP HK$'000	JPY HK$'000	NZD HK$'000	SGD HK$'000	USD HK$'000
Spot assets	19,486	10,165	5,551	10,110	2,264	4,302	-	222,441
Spot liabilities	(19,164)	(10,010)	(5,962)	(10,212)	(10)	(3,930)	-	(637,798)
Forward purchased	-	-	920	-	666	-	-	416,104
Forward sales	-	-	(593)	-	(2,909)	-	-	(1,583)
Net long/(short) position	322	155	(84)	(102)	11	372	-	(836)

10. OVERDUE AND RESCHEDULED ASSETS

	2020 HK$'000	2019 HK$'000	As a percentage of total advances 2020	As a percentage of total advances 2019
Advances to customers overdue for				
more than 3 months and up to 6 months	-	1,188	0.00%	0.10%
more than 6 months and up to 1 year	1,168	-	0.11%	0.00%
over 1 year	-	-	0.00%	0.00%
	1,168	1,188		
Rescheduled advances to customers	-	-	0.00%	0.00%
	1,168	1,188		
Fair value of collateral held in respect of the overdue advances	4,700	2,500		
Individual impairment allowance made in respect of the overdue advances	-	-		

The analysis of overdue advances and impaired advances is as follows:

	2020 HK$'000	2019 HK$'000
Advances to customers overdue for more than 3 months	1,168	1,188
Rescheduled advances to customers	-	-
	1,168	1,188
Add: Impaired advances and impaired advances which are not overdue or rescheduled	26,088	823
Advances which are overdue less than 3 months but not impaired	990	38,847
Total overdue advances and impaired advances	28,246	40,858

11. CAPITAL DISCLOSURES

The Company has adopted the foundation basic approach (BSC approach) to calculate the credit risk capital charge for all on-balance sheet exposures and off-balance sheet exposures. The Company has adopted the standardised (market risk) (STM approach) to calculate the market risk capital charge for foreign exchange and interest rate exposures. The Company has adopted the standardised (operational risk) STO approach to calculate the minimum capital charge for operational risk.

The capital ratios of the Company as at 31 December 2020 and 31 December 2019 and reported to the Hong Kong Monetary Authority are as follows:

	2020	2019
CET1 capital ratio	33.36%	29.67%
Tier 1 capital ratio	33.67%	30.10%
Total capital ratio	35.81%	32.57%

11. CAPITAL DISCLOSURES (continued)

The components of the Company's total capital base after deductions used in the calculation of the above capital ratios as at 31 December 2020 and 31 December 2019 and reported to the Hong Kong Monetary Authority are as follows:

	2020 HK$'000	2019 HK$'000
Category I – Common equity Tier 1 ("CET1) Capital		
CET1 capital instruments	165,000	165,000
Retained earnings	330,767	309,397
Disclosed reserves	7,000	7,000
CET1 Capital before deductions	502,767	481,397
CET1 Capital: regulatory deductions		
Cumulative fair value gains arising from the revaluation of land and Buildings	52,055	54,555
Deferred tax assets in excess of deferred tax liabilities	-	-
Total regulatory deductions to CET1 Capital	52,055	54,555
CET1 Capital after deductions	450,712	426,842
Category II – Additional Tier 1 Capital		
Additional Tier 1 capital instruments issued and share premium if any (subject to phase out arrangements from AT1 Capital)	4,140	6,210
Additional Tier 1 Capital	4,140	6,210
Tier 1 Capital after deductions	454,852	433,052
Category III – Tier 2 Capital		
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	23,425	24,550
Collective provisions	5,530	11,022
Tier 2 Capital	28,955	35,572
Total Capital Base	483,807	468,624

To comply with the Banking (Disclosure) Rules, a section "Regulatory Disclosures" will be available on the Bank's website at www.abchkl.com.hk on 29 April 2021 and include the following information:

- A detailed breakdown of the Company's capital base and regulatory deductions, using the standard template as specified by the Hong Kong Monetary authority.
- A reconciliation of capital components to the Company's balance sheet, using the standard template as specified by the Hong Kong Monetary Authority.
- A description of the main features and the full terms and conditions of the Company's issued capital instruments.

12. INTERNATIONAL CLAIMS

The Company's country risk exposures in the tables below are prepared in according to the location and types of the counterparties as defined by HKMA under the Banking (Disclosure) Rules with reference to the HKMA's Return of International Banking Statistics. International claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies. International claims attributable to individual countries or areas not less than 10% of the Company's total international claims, after recognised risk transfer, are shown as follows:

			Non-bank Private Sector			
	Banks HK$'000	Official Sector HK$'000	Non-bank Financial Institutions HK$'000	Non-financial Private Sector HK$'000	Others HK$'000	Total HK$'000
As at 31 December 2020						
Counterparty country/ jurisdiction						
Developed countries	63,537	-	-	-	-	63,537
Offshore countries	287,318	-	-	1,100,837	-	1,388,155
- of which: Hong Kong	209,794	-	-	1,037,819	-	1,247,613
Developing Europe	-	-	-	-	-	-
Developing Latin America and Caribbean	-	-	-	-	-	-
Developing Africa and Middle East	-	-	-	-	-	-
Developing Asia and Pacific	31,185	-	-	-	-	31,185
International Organisations	-	-	-	-	-	-
Unallocated	-	-	-	-	-	-
Total	382,040	-	-	1,100,837	-	1,482,877

12. INTERNATIONAL CLAIMS (continued)

	Banks HK$'000	Official Sector HK$'000	Non-bank Private Sector: Non-bank Financial Institutions HK$'000	Non-bank Private Sector: Non-financial Private Sector HK$'000	Others HK$'000	Total HK$'000
As at 31 December 2019						
Counterparty country/ jurisdiction						
Developed countries	131,205	-	-	-	-	131,205
Offshore countries	246,203	-	-	1,186,309	-	1,432,512
- of which: Hong Kong	206,451	-	-	1,127,302	-	1,333,753
Developing Europe	-	-	-	-	-	-
Developing Latin America and Caribbean	-	-	-	-	-	-
Developing Africa and Middle East	-	-	-	-	-	-
Developing Asia and Pacific	7,940	-	-	-	-	7,940
International Organisations	-	-	-	-	-	-
Unallocated	-	-	-	-	-	-
Total	385,348	-	-	1,186,309	-	1,571,657

13. SENIOR EXECUTIVE COMPENSATION

The Remuneration Committee annually reviews and Board of Directors approves the remuneration packages of the Chief Executive, members of the senior management and key personnel. The aggregate payouts for these 6 (2019: 6) senior executives for 2020 are shown in the table below in accordance with the disclosure requirement of 3.2.3 of the "Guideline on a Sound Remuneration System" issued by the Hong Kong Monetary Authority in March 2010.

Fixed Remuneration Salaries		Variable Remuneration Cash Bonus		Award of Deferred Variable Remuneration	
2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000
11,754	11,301	Nil	Nil	Nil	Nil

Included in the above table of the senior executives compensation were the emoluments of 1 director (2019: 1 director). The directors' emoluments have been included in Note 9 to the financial statements.

In determining the remuneration packages of the Chief Executive, senior management, and key personnel, the Remuneration Committee takes into account individual performances of respective divisions and departments, and the Company's overall business goals and objectives.

14. STATEMENT OF COMPLIANCE

The Company has fully complied with the applicable disclosure requirements of the Banking (Disclosure) Rules.