Report of the Directors and Audited Financial Statements

KDB ASIA LIMITED
產銀亞洲金融有限公司

31 December 2019

KDB ASIA LIMITED

CONTENTS

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2019. The report of the directors, the audited financial statements and the unaudited supplementary financial information are collectively referred to as the Annual Report.

Principal activities

The principal activities of the Company have not changed during the year and consisted of deposit taking, loan syndication, underwriting, investment, trade financing and the provision of financial services.

Results and dividends

The Company's profit for the year ended 31 December 2019 and the Company's financial position at that date are set out in the financial statements on pages 5 to 82.

The directors do not recommend the payment of any final dividend in respect of the year.

Share capital

On 31 July 2019, 100,000,000 ordinary shares were issued and fully paid at US$1 per share for cash to the existing shareholder of the Company. Details of movements are set out in note 19 to the financial statements.

Reserves

Details of movements in the Company's reserves during the year are set out in note 20 to the financial statements and in the statement of changes in equity.

Directors

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

Mr. LEE Young Jae	
Mr. CHOI Man Sik	
Mr. KIM Geun Sik	
Mr. LEE Byung Ho	
Mr. JEONG Yuncheol	(Appointed on 19 July 2019)
Mr. YANG Bok Seung	(Appointed on 19 July 2019)
Mr. SOHN Sugkyoo	(Appointed on 10 December 2019)
Mr. HUH Yong Hak	(Resigned on 26 March 2019)
Mr. KIM Joong Gon	(Resigned on 19 July 2019)
Mr. MIN In Hwan	(Resigned on 19 July 2019)

In accordance with article 103 of the Company's articles of association, all of the existing directors will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' interests

At no time during the year was the Company or any of its holding companies or fellow subsidiaries a party to any arrangement to enable the Company's directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' interests in transactions, arrangements or contracts

No director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Company to which the Company's holding companies or fellow subsidiaries was a party during the year.

Permitted indemnity provision

During the year ended 31 December 2019, a qualifying third party indemnity provision provided by the Company for the benefit of all the directors of the Company was in force.

Compliance with Supervisory Policy Manual
The Company has complied with the disclosure requirements of the "Guideline on the Application of the Banking (Disclosure) Rules" and "Corporate Governance of Locally Incorporated Authorised Institutions" under the Supervisory Policy Manuals issued by the Hong Kong Monetary Authority ("HKMA"). The Company has also complied with the capital requirements related to capital base and capital adequacy ratio stipulated by the HKMA.

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

ON BEHALF OF THE BOARD

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CHOI Man Sik
Alternate Chief Executive

Hong Kong
24 April 2020

Independent auditor's report
To the members of KDB Asia Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of KDB Asia Limited (the "Company") set out on pages 5 to 82, which comprise the statement of financial position as at 31 December 2019, and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

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

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

Independent auditor's report (continued)
To the members of KDB Asia Limited
(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors 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.

Certified Public Accountants
Hong Kong
24 April 2020

KDB ASIA LIMITED

INCOME STATEMENT

Year ended 31 December 2019

	Notes	2019 US$	2018 US$
Interest income	3(a)	66,892,113	45,685,076
Interest expense	3(b)	(42,637,369)	(26,954,000)
Net interest income		24,254,744	18,731,076
Fee and commission income	3(c)	4,806,090	7,367,553
Fee and commission expense	3(c)	(998,981)	(437,917)
Net fee and commission income		3,807,109	6,929,636
Net gains from financial assets held at fair value through profit or loss	3(d)	2,024,973	458,408
Net hedging loss	3(e)	(1,613,269)	(572,792)
Other operating gains, net	3(f)	2,544,287	2,037,371
Operating income		31,017,844	27,583,699
Operating expenses	3(g)	(10,803,439)	(9,777,822)
Reversal of credit loss allowances, net	5	113,211	1,045,359
Net gains from sale of financial assets at fair value through other comprehensive income	3(h)	919,879	142,519
PROFIT BEFORE TAX		21,247,495	18,993,755
Income tax expense	6	(3,526,512)	(3,118,402)
PROFIT FOR THE YEAR		17,720,983	15,875,353

KDB ASIA LIMITED

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 US$	2018 US$
PROFIT FOR THE YEAR		17,720,983	15,875,353
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Other comprehensive income to be reclassified to income statement in subsequent periods:			
Financial assets at fair value through other comprehensive income:			
Net movement in financial assets at fair value through other comprehensive income revaluation reserve, net of tax	7	1,872,198	(2,442,008)
Other comprehensive income not to be reclassified to income statement in subsequent periods:			
Re-measurement gains on defined benefit scheme	7	3,657	14,847
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		19,596,838	13,448,192

KDB ASIA LIMITED

STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 US$	2018 US$
ASSETS			
Cash and balances with banks and other financial institutions	8	101,796,366	31,556,393
Placements with banks and other financial institutions	8	19,997,880	27,986,420
Trade bills		392,517,783	385,492,947
Financial assets at fair value through profit or loss	9	38,655,280	45,153,515
Loans and advances	10	1,369,057,990	852,340,313
Financial assets at fair value through other comprehensive income	11	444,279,844	361,723,431
Property and equipment	12	935,371	939,177
Rights-of-use assets	13	6,752,175	-
Interest receivable and other assets	14	24,877,145	42,349,107
Deferred tax assets	15	-	248,254
TOTAL ASSETS		2,398,869,834	1,747,789,557
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions		1,116,230,769	695,000,000
Deposits from customers	16	1,046,173	2,077,990
Financial liabilities at fair value through profit or loss	17	2,596,851	255,584
Certificates of deposit issued		817,480,901	715,168,747
Lease liabilities	13	6,764,556	-
Tax payable		3,296,427	128,015
Interest payable and other liabilities	18	28,169,133	31,956,164
Deferred tax liabilities	15	485,129	-
TOTAL LIABILITIES		1,976,069,939	1,444,586,500
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	19	240,000,000	140,000,000
Reserves	20	182,799,895	163,203,057
TOTAL EQUITY		422,799,895	303,203,057
TOTAL EQUITY AND LIABILITIES		2,398,869,834	1,747,789,557

CHOI Man Sik
Director

KIM Geun Sik
Director

KDB ASIA LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Notes	Share capital US$	Financial assets at fair value through other comprehensive income revaluation reserve US$	Retained profits US$	Total US$
At 1 January 2018		140,000,000	4,523,118	144,767,791	289,290,909
Impact of adopting HKFRS 9		-	(1,487,024)	1,950,980	463,956
Restated opening balance under HKFRS 9		140,000,000	3,036,094	146,718,771	289,754,865
Profit for the year	20	-	-	15,875,353	15,875,353
Other comprehensive income for the year:					
Net movement in financial assets at fair value through other comprehensive income revaluation reserve, net of tax	20	-	(2,442,008)	-	(2,442,008)
Re-measurement gains on defined benefit scheme	20	-	-	14,847	14,847
Total comprehensive income for the year		-	(2,442,008)	15,890,200	13,448,192
At 31 December 2018 and 1 January 2019		140,000,000	594,086	162,608,971	303,203,057
Profit for the year	20	-	-	17,720,983	17,720,983
Other comprehensive income for the year:					
Net movement in financial assets at fair value through other comprehensive income revaluation reserve, net of tax	20	-	1,872,198	-	1,872,198
Re-measurement gains on defined benefit scheme	20	-	-	3,657	3,657
Total comprehensive income for the year		-	1,872,198	17,724,640	19,596,838
Issue of shares	19	100,000,000	-	-	100,000,000
At 31 December 2019		240,000,000	2,466,284	180,333,611	422,799,895

KDB ASIA LIMITED

STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 US$	2018 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		21,247,495	18,993,755
Adjustments for:			
Amortised interest expense		1,035,093	817,104
Amortised net fair value gain on financial assets at fair value through other comprehensive income upon hedge ineffectiveness		(217,580)	(14,986)
Depreciation of property and equipment	3(g)	134,083	127,363
Depreciation of right-of-use assets	3(g)	2,004,591	-
Gain on disposal of items of property and equipment	3(f)	(2,706)	-
Gain on termination of leases		(353)	-
Interest expenses on lease liabilities	3(b)	115,518	-
Net gains from sale of financial assets at fair value through other comprehensive income	3(h)	(919,879)	(142,519)
Net hedging loss	3(e)	1,613,269	572,792
Reversal of credit loss allowances, net	5	(113,211)	(1,045,359)
		24,896,320	19,308,150
INCREASE IN OPERATING ASSETS:			
Increase in trade bills		(7,026,682)	(76,388,803)
Decrease/(increase) in financial assets at fair value through profit or loss		1,524,704	(12,317,656)
Increase in gross loans and advances		(516,585,409)	(307,020,794)
Decrease/(increase) in interest receivable and other assets		17,450,235	(27,156,531)
		(504,637,152)	(422,883,784)
INCREASE IN OPERATING LIABILITIES:			
Increase in deposits from banks and other financial institutions		421,230,769	68,691,296
(Decrease)/increase in deposits from customers		(1,031,817)	20,303
Increase/(decrease) in financial liabilities at fair value through profit or loss		1,605,449	(106,850)
Increase in certificates of deposit issued		102,312,154	277,417,007
(Decrease)/increase in interest payable and other liabilities		(3,836,786)	5,186,574
		520,279,769	351,208,330
Hong Kong profits tax paid		-	(1,859,575)
Net cash flows from/(used in) operating activities		40,538,937	(54,226,879)

KDB ASIA LIMITED

STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2019

	Notes	2019 US$	2018 US$
Net cash flows from/(used in) operating activities		40,538,937	(54,226,879)
CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property and equipment		3,205	-
Purchases of items of property and equipment	12	(130,776)	(24,015)
Proceeds from disposal of financial assets at fair value through other comprehensive income		100,941,001	97,667,477
Purchases of financial assets at fair value through other comprehensive income		(177,331,590)	(50,124,465)
Dividend received		318,256	437,277
Net cash flows (used in)/from investing activities		(76,199,904)	47,956,274
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	19	100,000,000	-
Principal portion of lease payments	13(b)	(2,087,600)	-
Net cash flows from investing activities		97,912,400	-
Net increase/(decrease) in cash and cash equivalents		62,251,433	(6,270,605)
Cash and cash equivalents at 1 January		59,542,813	65,813,418
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	8	121,794,246	59,542,813
Operational cash flows from interest and dividends:			
Interest received		65,582,260	44,327,927
Interest paid		41,035,800	25,203,958
Dividend received		318,256	437,277

1. CORPORATE INFORMATION

KDB Asia Limited (the "Company") is a limited company incorporated and domiciled in Hong Kong and is a restricted licence bank under the Hong Kong Banking Ordinance. Its registered office is Suite 2005-2010, 20th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

During the year, the principal activities of the Company consisted of deposit taking, loan syndication, underwriting, investment, trade financing and the provision of financial services.

In the opinion of the directors, the holding company is Korea Development Bank, which is incorporated in the Republic of Korea.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, 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. The preparation of the financial statements has also made reference to the Guideline on the Application of the Banking (Disclosure) Rules and Corporate Governance of Locally Incorporated Authorised Institutions under the Supervisory Policy Manuals issued by the Hong Kong Monetary Authority ("HKMA").

The financial statements have been prepared under the historical cost convention, except for financial assets designated at fair value through profit or loss, and financial assets designated at fair value through other comprehensive income which have been measured at fair value. These financial statements are presented in United States dollars ("US$").

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the following new and revised HKFRSs for the first time, which are applicable to the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Company's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

HKFRS 16 *Leases*

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 16 *Leases (continued)*
The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

New definition of a lease
Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases
Nature of the effect of adoption of HKFRS 16
The Company has lease contracts for various items of property and motor vehicle. As a lessee, the Company previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Company. Under HKFRS 16, the Company applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Company recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition
Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate ("IBR") at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Company elected to present the right-of-use assets separately in the statement of financial position.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 16 *Leases (continued)*

Impact on transition (continued)

The Company has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Leases applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Excluding initial direct costs from the measurement of the right-of-use assets at 1 January 2019

The adoption of HKFRS 16 on 1 January 2019 by the Company has given rise to lease liabilities of US$974,213 at 1 January 2019 with corresponding right-of-use assets of the same amount recognised (see note 13). The adoption has had no impact on the Company's equity at 1 January 2019.

The weighted average IBR applied to the lease liabilities recognised at 1 January 2019 is 2.27%.

There is no significant difference between the amount of the operating lease commitments at 31 December 2018 disclosed applying the previous accounting standards (see note 22(b)), discounted using the IBR at 1 January 2019 and the amount of lease liabilities recognised in the statement of financial position at 1 January 2019.

HK(IFRIC)-Int 23

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Company considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Company's tax compliance and transfer pricing study, the Company determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Company.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company 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 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]

[1] Effective for annual periods beginning on or after 1 January 2020
[2] Effective for annual periods beginning on or after 1 January 2021

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

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. 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 are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Company's financial statements.

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. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Company expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Company's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Company measures its financial assets at fair value through profit or loss, financial liabilities at fair value through profit or loss, debt investments 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 Company. 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 Company 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 Company 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Company 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 Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Company 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 Company 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 Company or an entity related to the Company;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (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 Company or to the parent of the Company.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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 its estimated useful life. The principal annual rates used for this purpose are as follows:

- Land and buildings	remaining term of the lease
- Leasehold improvements	5 years
- Furniture, fittings and office equipment	5 years
- Motor vehicles	5 years

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. 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 including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases (applicable after 1 January 2019)

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

Company as a lessee

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable after 1 January 2019) (continued)

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease terms as follows:

- Prepaid land lease payments	remaining term of the lease
- Motor vehicles	remaining term of the lease

If ownership of the leased asset transfers to the Company by 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.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease 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 Company and payments of penalties for termination of a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its IBR 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 lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable before 1 January 2019)
Leases that transfer substantially all the rewards and risks of ownership of assets to the Company, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessor, assets leased by the Company under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Company is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property and equipment.

Investments and other financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Company'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.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)
Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)
The Company 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 financial assets in order to collect contractual cash flows.
- 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 effective interest method ("EIR") and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)
The Company measures debt investments at fair value through other comprehensive income 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.
- 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 investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the income statement and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the income statement.

Financial assets at fair value through other comprehensive income (equity investments)
Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the income statement. Dividends are recognised as other income in the income statement when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)
Subsequent measurement (continued)
Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing 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 with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

This category includes derivative instruments and equity investments which the Company had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the income statement when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

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

- the rights to receive cash flows from the asset have expired; or
- the Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)
When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets
The Company recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach
ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Company applies the low credit risk simplification. At each reporting date, the Company evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Company reassesses the external credit ratings of the debt investments. In addition, the Company considers that there has been a significant increase in credit risk when credit rating of the respective debt investment falls below B-.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For contract assets that do not contain a significant financing component or when the Company applies the practical expedient of not adjusting the effect of a significant financing component, the Company applies the simplified approach in calculating ECLs. Under the simplified approach, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the economic environment.

For contract assets that contain a significant financing component and lease receivables, the Company chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

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, payables, 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 and payables, net of directly attributable transaction costs.

The Company's financial liabilities include deposits and balances of banks and other financial institutions, deposits from customers, financial liabilities at fair value through profit or loss, certificates of deposit issued, interest payable and other liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company 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 income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the income statement, except for the gains or losses arising from the Company's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, 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 income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement 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.

Repurchase and reverse repurchase transactions

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds of the sale are reported as liabilities and are carried at amortised cost.

Securities purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the securities, but as receivables and are carried in the statement of financial position at amortised cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Repurchase and reverse repurchase transactions (continued)
Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income or interest expense respectively, over the life of each agreement using the EIR method.

Hedge accounting
The Company makes use of derivative instruments to manage exposures to interest rate risk and applies hedge accounting for transactions which meet specified criteria.

At inception of the hedge relationship, the Company formally documents the hedge relationship to which the Company wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

Fair value hedges
For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging instrument is recognised in the income statement in net hedging income. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognised in the income statement in net hedging income.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the recalculated EIR method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, demand deposits and placements with banks and other financial institutions with original maturity of three months or less.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 finance costs in the income statement.

Income tax

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

Current tax assets and liabilities 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 Company 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

- 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 and only if the Company has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Recognition of income and expense

Revenue, which is also the Company's turnover, is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest and similar income and expenses

For all financial instruments measured at amortised cost, interest bearing financial assets classified as financial instruments designated at fair value through other comprehensive income and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of income and expense (continued)

Fee and commission income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(i) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

(ii) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend income

Dividend income is recognised when the Company's right to receive the payment is established.

(iv) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans.

Salaries, annual bonuses, paid annual leave, leave passage, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Defined benefit retirement plan obligations

The Company's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognises the following changes in the net defined benefit obligation in the income statement:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- net interest expense or income

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividend proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been 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.

Foreign currencies

These financial statements are presented in United States dollars, which is the Company's functional and presentation currency. Foreign currency transactions recorded by the entities in the Company 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 the income statement.

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.

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Company initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Company determines the transaction date for each payment or receipt of the advance consideration.

2.5 SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Company'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.

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.

Provision for expected credit losses on loans and advances, financial assets at fair value through other comprehensive income and contract assets
The Company reviews its credit impaired loans and advances at the end of each reporting period to assess whether an impairment loss should be recorded in the income statement. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Other than the credit impaired loans, the Company uses a provision matrix to calculate ECLs for loans and advances, financial assets at fair value through other comprehensive income and receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future. Further details are contained in note 8, 10, 11, 14 and 22 to the financial statements.

Fair value of unlisted equity investments
The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 24 to the financial statements. The Company makes estimate using quotations by pricing agent based on the future discounted cash flow method. The Company classifies the fair value of these investments as Level 3.

2.5 SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Leases – Estimating the IBR

The Company cannot readily determine the interest rate implicit in a lease, and therefore, it uses an IBR to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company "would have to pay", which requires estimation when no observable rates are available or when it needs to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

3. PROFIT BEFORE TAX

The Company's profit before tax is arrived after taking account of:

(a) Interest income

	2019 US$	2018 US$
Listed investments	13,473,529	11,757,178
Unlisted investments	84,766	662,623
Trade bills and loans and advances	52,075,221	31,483,478
Others	1,258,597	1,781,797
	66,892,113	45,685,076

Interest income is calculated using the EIR method. Included in the above is interest income of US$1,045,077 (2018: US$1,605,829) accrued on impaired financial assets for the year ended 31 December 2019.

(b) Interest expense

	2019 US$	2018 US$
Deposits from customers, banks and other financial institutions and certificates of deposit issued	42,521,851	26,954,000
Lease liabilities	115,518	-
	42,637,369	26,954,000

(c) Net fee and commission income

All fee and commission income and expense are related to financial assets and liabilities not designated at fair value through profit or loss.

3. PROFIT BEFORE TAX (continued)

(d) Net gains from financial assets held at fair value through profit or loss

	2019 US$	2018 US$
Net losses from trading securities/investments in funds	(71,013)	(1,031,808)
Net interest income on derivatives	2,095,986	1,490,216
	2,024,973	458,408

(e) Net hedging loss

	2019 US$	2018 US$
Fair value hedges		
- Net gains/(losses) on hedged items attributable to the hedged risk	6,832,454	(1,508,857)
- Net (losses)/gains on hedging instruments	(8,445,723)	936,065
	(1,613,269)	(572,792)

(f) Other operating gains, net

	2019 US$	2018 US$
Net gains from dealing in foreign currencies	2,200,658	1,600,094
Dividend income from unlisted financial assets at fair value through profit or loss	318,256	437,277
Gain on disposal of items of property and equipment	2,706	-
Others	22,667	-
	2,544,287	2,037,371

3. PROFIT BEFORE TAX (continued)

(g) Operating expenses

	2019 US$	2018 US$
Staff costs	6,581,063	5,729,056
Premises and equipment expenses		
- Depreciation of property and equipment	134,083	127,363
- Depreciation of right-of-use assets	1,269,031	-
- Rent	1,104,700	2,298,418
- Rates	113,842	107,634
	2,621,656	2,533,415
Auditor's remuneration	73,950	73,500
Others	1,526,770	1,441,851
	1,600,720	1,515,351
	10,803,439	9,777,822

Included in staff costs above are retirement scheme contribution of US$80,349 (2018: US$66,730) and operating lease charges in respect of staff quarters of US$186,995 (2018: US$906,007) and depreciation of right-of-use assets in respect of staff quarters of US$735,560 (2018:nil) for the year ended 31 December 2019.

Included in the above operating expenses are total operating lease charges of US$1,050,325 (2018: US$2,970,155) for rental of properties and US$241,370 (2018: US$234,270) for rental of equipment.

(h) Net gains from sale of financial assets at fair value through other comprehensive income

	2019 US$	2018 US$
Net revaluation gains transferred from reserves	74,980	262,531
Net gains/(losses) arising in current year	844,899	(120,012)
	919,879	142,519

4. DIRECTORS' REMUNERATION

Directors' remuneration 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:

	2019 US$	2018 US$
Fees	12,622	43,077
Other emoluments:		
- Short-term employee benefits	674,235	598,423
	686,857	641,500

Directors of the Company are considered to be key management personnel.

5. REVERSAL OF CREDIT LOSS ALLOWANCES, NET

The following table shows the changes in ECL on financial instruments for the year recorded in the income statement.

	2019			
	12-month ECL (Stage 1) US$	Lifetime ECL not credit impaired (Stage 2) US$	Lifetime ECL credit impaired (Stage 3) US$	Total US$
Net charge for credit loss expenses /(reversal of credit loss allowances):				
- Cash and cash equivalents	(11,460)	-	-	(11,460)
- Trade bills	1,846	-	-	1,846
- Loans and advances	923,362	371	(1,056,000)	(132,267)
- Financial assets at fair value through other comprehensive income	(26,976)	-	-	(26,976)
- Interest receivable and other assets	2,225	9	-	2,234
- Other commitments	56,856	-	-	56,856
- Trade-related contingencies	(3,444)	-	-	(3,444)
	942,409	380	(1,056,000)	(113,211)

5. REVERSAL OF CREDIT LOSS ALLOWANCES, NET (continued)

	2018			
	12-month ECL (Stage 1) US$	Lifetime ECL not credit impaired (Stage 2) US$	Lifetime ECL credit impaired (Stage 3) US$	Total US$
Net charge for credit loss expenses /(reversal of credit loss allowances):				
- Cash and cash equivalents	9,830	-	-	9,830
- Trade bills	(37,429)	-	-	(37,429)
- Loans and advances	121,116	1,848	(975,240)	(852,276)
- Financial assets at fair value through other comprehensive income	(114,807)	-	(33,667)	(148,474)
- Interest receivable and other assets	(247)	-	(1)	(248)
- Other commitments	30,960	-	-	30,960
- Trade-related contingencies	(47,722)	-	-	(47,722)
	(38,299)	1,848	(1,008,908)	(1,045,359)

Under HKFRS 9, ECL is assessed using an approach which classifies financial assets into three stages, each of which is reflective of the assessed credit risk profile in each instance.

6. INCOME TAX

Under the two-tiered profit tax rates regime, Hong Kong profits tax has been provided at the rate of 8.25% (2018: 8.25%) on estimated assessable profits of first HK$2 million arising in Hong Kong during the year. The remainder of the assessable profits will continue to be taxed at 16.5% (2018:16.5%).

	2019 US$	2018 US$
Provision for the year	3,296,427	2,875,367
Over-provision in respect of prior years	(128,015)	-
Deferred tax (note 15)	358,100	243,035
Tax expense for the year	3,526,512	3,118,402

6. INCOME TAX (continued)

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

	2019 US$	2018 US$
Profit before tax	21,247,495	18,993,755
Tax at the statutory tax rate of 8.25%	21,154	-
Tax at the statutory tax rate of 16.5%	3,463,529	3,133,970
Expenses not deductible for tax	682,296	515,318
Income not subject to tax	(1,016,661)	(532,427)
Temporary difference not recognised in prior year	504,209	-
Over-provision in respect of prior years	(128,015)	-
Others	-	1,541
Tax expense at the effective rate of 16.6% (2018: 15.2%)	3,526,512	3,118,402

7. OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

	2019			2018		
	Before-tax amount US$	Tax effect US$	Net-of-tax amount US$	Before-tax amount US$	Tax effect US$	Net-of-tax amount US$
Financial assets at fair value through other comprehensive income:						
Net movement in financial assets at fair value through other comprehensive income revaluation reserve	2,247,481	(375,283)	1,872,198	(2,905,861)	463,853	(2,442,008)
Re-measurement gains on defined benefit scheme	3,657	-	3,657	14,847	-	14,847
Other comprehensive income	2,251,138	(375,283)	1,875,855	(2,891,014)	463,853	(2,427,161)

7. OTHER COMPREHENSIVE INCOME (continued)

(b) Reclassification adjustments relating to components of other comprehensive income

	2019 US$	2018 US$
Financial assets at fair value through other comprehensive income, net of tax:		
Changes in fair value recognised during the year	1,974,154	(2,064,670)
Reclassification adjustments for gains and losses included in profit or loss		
- Gains on disposal	(74,980)	(262,531)
- Net movement in credit loss allowance of financial assets at fair value through other comprehensive income	(26,976)	(114,807)
Net movement in financial assets at fair value through other Comprehensive income revaluation reserve income	1,872,198	(2,442,008)

8. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents less impairment

	2019 US$	2018 US$
Cash and balances with banks and other financial institutions	101,796,366	31,556,393
Placements with banks and other financial institutions	20,000,000	28,000,000
Less: Credit loss allowances	(2,120)	(13,580)
Cash and bank balances and placements	121,794,246	59,542,813
Less: Placements with banks and other financial institutions with original maturity more than three months	-	-
Cash and cash equivalents	121,794,246	59,542,813

(b) Movement in credit loss allowances on cash and cash equivalents

	12-month ECL (Stage 1) US$	Lifetime ECL not credit impaired (Stage 2) US$	Lifetime ECL credit impaired (Stage 3) US$	Total US$
At 1 January 2019	13,580	-	-	13,580
New assets originated	2,120	-	-	2,120
Assets derecognised or repaid during the year (other than write-offs)	(13,580)	-	-	(13,580)
At 31 December 2019	2,120	-	-	2,120

8. CASH AND CASH EQUIVALENTS (continued)

(b) Movement in credit loss allowances on cash and cash equivalents (continued)

	12-month ECL (Stage 1) US$	Lifetime ECL not credit impaired (Stage 2) US$	Lifetime ECL credit impaired (Stage 3) US$	Total US$
At 1 January 2018	3,750	-	-	3,750
New assets originated	13,580	-	-	13,580
Assets derecognised or repaid during the year (other than write-offs)	(3,750)	-	-	(3,750)
At 31 December 2018	13,580	-	-	13,580

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 US$	2018 US$
Listed debt securities, at fair value	2,999,850	23,098,030
Unlisted investments in funds, at fair value	35,377,322	17,832,838
Positive fair values of derivatives (note 21(b))	278,108	4,222,647
	38,655,280	45,153,515
Listed debt securities issued by:		
- Corporate entities	-	3,017,910
- Banks and other financial institutions	2,999,850	20,080,120
	2,999,850	23,098,030
Listed debt securities analysed by place of listing:		
- Listed outside Hong Kong	2,999,850	23,098,030
	2,999,850	23,098,030

The above listed debt securities were classified as held for trading. The fair values of these listed securities are based on quoted market price.

10. LOANS AND ADVANCES

(a) Loans and advances less impairment

	2019 US$	2018 US$
Gross loans and advances to:		
- Banks	128,009,411	102,956,405
- Customers	1,245,612,462	754,080,058
	1,373,621,873	857,036,463
Less: Credit loss allowances on non-credit impaired loans and advances to		
- Banks (note 10(c))	(12,454)	(11,071)
- Customers (note 10(c))	(1,479,429)	(557,079)
	(1,491,883)	(568,150)
Less: Credit loss allowances on credit impaired loans and advances to		
- Customers (note 10(c))	(3,072,000)	(4,128,000)
	(3,072,000)	(4,128,000)
Net loans and advances to:		
- Banks	127,996,957	102,945,334
- Customers	1,241,061,033	749,394,979
	1,369,057,990	852,340,313

Note 23(a)(vi) contains information about the collaterals against loans and advances held by the Company.

(b) Analysis by industry sector

	2019 US$	2018 US$
Loans and advances for use in Hong Kong		
- Property development	40,701,467	9,583,222
- Property investment	9,570,920	19,153,928
- Financial concerns	93,515,044	63,698,792
- Stock brokers	32,239,671	24,358,974
- Wholesale and retail trade	77,853,312	77,345,742
- Manufacturing	150,920,360	126,600,315
- Recreational activities	6,000,000	6,000,000
- Others	117,355,101	38,086,306
	528,155,875	364,827,279
Trade finance	3,664,016	8,362,060
Loans and advances for use outside Hong Kong	841,801,982	483,847,124
Gross loans and advances	1,373,621,873	857,036,463

The above analysis of loans and advances by industry sector is based on categories used in the “Quarterly Analysis of Loans and Advances and Provisions” Return to the HKMA.

10. LOANS AND ADVANCES (continued)

(c) Movement in credit loss allowances

	12-month ECL (Stage 1) US$	Lifetime ECL not credit impaired (Stage 2) US$	Lifetime ECL credit impaired (Stage 3) US$	Total US$
At 1 January 2019	566,302	1,848	4,128,000	4,696,150
New loans/financing originated	616,414	-	-	616,414
Loans/financing derecognised or repaid during the year (other than write-offs)	(149,530)	-	(1,032,000)	(1,181,530)
Movements due to changes in credit risk	456,478	371	(24,000)	432,849
At 31 December 2019	1,489,664	2,219	3,072,000	4,563,883
Attributable to:				
Loans and advances to banks (note 10(a))	12,454	-	-	12,454
Loans and advances to customers (note 10(a))	1,477,210	2,219	3,072,000	4,551,429
	1,489,664	2,219	3,072,000	4,563,883
Deducted from:				
Loans and advances to banks (note 10(a))	128,009,411	-	-	128,009,411
Loans and advances to customers (note 10(a))	1,229,655,462	3,957,000	12,000,000	1,245,612,462
	1,357,664,873	3,957,000	12,000,000	1,373,621,873

10. LOANS AND ADVANCES (continued)

(c) Movement in credit loss allowances (continued)

	12-month ECL (Stage 1) US$	Lifetime ECL not credit impaired (Stage 2) US$	Lifetime ECL credit impaired (Stage 3) US$	Total US$
At 1 January 2018	445,186	-	7,489,977	7,935,163
New loans/financing originated	433,803	-	-	433,803
Loans/financing derecognised or repaid during the year (other than write-offs)	(224,590)	-	(1,020,000)	(1,244,590)
Transfer between stages - transfer to lifetime ECL not credit impaired (Stage 2)	-	3,240	(3,240)	-
Movements due to changes in credit risk	(88,097)	(1,392)	48,000	(41,489)
Write-offs	-	-	(2,386,737)	(2,386,737)
At 31 December 2018	566,302	1,848	4,128,000	4,696,150
Attributable to:				
Loans and advances to banks (note 10(a))	11,071	-	-	11,071
Loans and advances to customers (note 10(a))	555,231	1,848	4,128,000	4,685,079
	566,302	1,848	4,128,000	4,696,150
Deducted from:				
Loans and advances to banks (note 10(a))	102,956,405	-	-	102,956,405
Loans and advances to customers (note 10(a))	732,140,608	5,939,450	16,000,000	754,080,058
	835,097,013	5,939,450	16,000,000	857,036,463

(d) Impaired loans and advances

	2019 US$	2018 US$
Gross impaired loans and advances	12,000,000	16,000,000
Credit loss allowances		
- Credit impaired	(3,072,000)	(4,128,000)
	8,928,000	11,872,000
Gross impaired loans and advances as a percentage of total gross loans and advances	0.87%	1.87%

Impaired loans and advances are individually assessed loans with objective evidence of impairment on an individual basis.

Credit impaired loans and advances are unsecured.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(a) Financial assets at fair value through other comprehensive income

	2019 US$	2018 US$
Debt securities		
- Listed in Hong Kong	174,622,365	167,301,245
- Listed outside Hong Kong	269,608,627	184,368,966
- Unlisted	-	10,011,200
	444,230,992	361,681,411
Unlisted equity securities	48,852	42,020
	444,279,844	361,723,431
Issued by:		
Banks and other financial institutions	105,282,415	65,401,450
Corporate entities	338,997,429	296,321,981
	444,279,844	361,723,431

(b) Movement in credit loss allowances on financial assets at fair value through other comprehensive income charged to revaluation reserve

	12-month ECL (Stage 1) US$	Lifetime ECL not credit impaired (Stage 2) US$	Lifetime ECL credit impaired (Stage 3) US$	Total US$
At 1 January 2019	223,674	-	-	223,674
New assets originated	62,840	-	-	62,840
Assets derecognised or repaid during the year (other than write-offs)	(66,979)	-	-	(66,979)
Movements due to changes in credit risk	(22,837)	-	-	(22,837)
At 31 December 2019	196,698	-	-	196,698
At 1 January 2018	338,481	-	33,667	372,148
New assets originated	43,184	-	-	43,184
Assets derecognised or repaid during the year (other than write-offs)	(138,171)	-	(33,667)	(171,838)
Movements due to changes in credit risk	(19,820)	-	-	(19,820)
At 31 December 2018	223,674	-	-	223,674

12. PROPERTY AND EQUIPMENT

	Land and buildings US$	Leasehold improvements US$	Furniture, fittings and office equipment US$	Motor vehicles US$	Total US$
2019					
Cost:					
At 1 January 2019	1,022,708	1,091,599	771,553	117,680	3,003,540
Additions	-	33,846	96,930	-	130,776
Disposal	-	-	(69,248)	(117,680)	(186,928)
At 31 December 2019	1,022,708	1,125,445	799,235	-	2,947,388
Accumulated depreciation:					
At 1 January 2019	427,384	803,113	716,186	117,680	2,064,363
Charge for the year	16,534	86,683	30,866	-	134,083
Written off on disposal	-	-	(68,749)	(117,680)	(186,429)
At 31 December 2019	443,918	889,796	678,303	-	2,012,017
Net book value:					
At 31 December 2019	578,790	235,649	120,932	-	935,371
2018					
Cost:					
At 1 January 2018	1,022,708	1,080,084	760,784	117,680	2,981,256
Additions	-	11,515	12,500	-	24,015
Disposal	-	-	(1,731)	-	(1,731)
At 31 December 2018	1,022,708	1,091,599	771,553	117,680	3,003,540
Accumulated depreciation:					
At 1 January 2018	410,850	716,805	693,396	117,680	1,938,731
Charge for the year	16,534	86,308	24,521	-	127,363
Written off on disposal	-	-	(1,731)	-	(1,731)
At 31 December 2018	427,384	803,113	716,186	117,680	2,064,363
Net book value:					
At 31 December 2018	595,324	288,486	55,367	-	939,177

The Company's leasehold land and buildings are all situated in Hong Kong and are held under long term lease.

13. Right-of-use assets and lease liabilities

(a) Right-of-use assets

2019	Prepaid land lease payments US$	Motor vehicles US$	Total US$
Cost:			
At 1 January 2019	-	-	-
Recognition upon initial application of HKFRS 16	974,213	-	974,213
Additions	7,691,329	130,825	7,822,154
Changes arising from lease modification	1,908	-	1,908
Disposal	(94,876)	-	(94,876)
At 31 December 2019	8,572,574	130,825	8,703,399
Accumulated depreciation:			
At 1 January 2019	-	-	-
Charge for the year	2,000,230	4,361	2,004,591
Written off on disposal	(53,367)	-	(53,367)
At 31 December 2019	1,946,863	4,361	1,951,224
Net Carrying Amount:			
At 31 December 2019	6,625,711	126,464	6,752,175

The Company leases certain of its office, staff quarters and a motor vehicle used in its operations. Leases for these assets are negotiated for terms ranging from two to five years.

13. Right-of-use assets and lease liabilities (continued)

(b) Lease liabilities

Movement of carrying amounts of lease liabilities

	2019 US$
At 1 January 2019	-
Recognition upon initial application of HKFRS 16	974,213
Additions	7,802,379
Accretion of interest	115,518
Payments	(2,087,600)
Changes arising from lease modification	1,908
Disposals	(41,862)
At 31 December 2019	6,764,556

The maturity analysis of lease liabilities is disclosed in note 23(c) to the financial statements.

(c) Amounts recognised in income statement

	2019 US$
Depreciation expense of right-of-use assets	2,004,591
Interest expense on lease liabilities	115,518
Operating lease charges to short-term leases	1,291,695
Gain on termination of leases	(354)
Total amount recognised in income statement	3,411,450

The Company had total cash outflows of US$2,087,600 in 2019. The Company also had non-cash additions of right-of-use assets and lease liabilities of US$7,822,154 and US$7,802,379 in 2019 respectively.

14. INTEREST RECEIVABLE AND OTHER ASSETS

(a) Interest receivable and other assets less impairment

	2019 US$	2018 US$
Interest receivable	10,570,151	9,185,664
Margin deposit	10,965,207	5,262,218
Other assets	3,347,289	27,991,013
Less: Credit loss allowances	(5,502)	(89,788)
	24,877,145	42,349,107

Margin deposit represented cash held with brokers and Qualifying Central Counterparty as collateral to secure the open future contracts and interest rate contracts undertaken by the Company respectively.

(b) Movement in credit loss allowances on interest receivables and other assets

	12-month ECL (Stage 1) US$	Lifetime ECL not credit impaired (Stage 2) US$	Lifetime ECL credit impaired (Stage 3) US$	Total US$
At 1 January 2019	89,787	1	-	89,788
New assets originated	3,437	-	-	3,437
Assets derecognised or repaid during the year (other than write-offs)	(88,696)	-	-	(88,696)
Movements due to changes in credit risk	964	9	-	973
At 31 December 2019	5,492	10	-	5,502
At 1 January 2018	106,797	-	1	106,798
New assets originated	87,818	-	-	87,818
Assets derecognised or repaid during the year (other than write-offs)	(104,479)	-	-	(104,479)
Transfer between stages - transfer to lifetime ECL not credit impaired (Stage 2)	-	1	(1)	-
Movements due to changes in credit risk	(349)	-	-	(349)
At 31 December 2018	89,787	1	-	89,788

15. DEFERRED TAX ASSETS/(LIABILITIES)

The components of deferred tax assets/(liabilities) recognised in the statement of financial position and the movements during the year are as follows:

	Credit loss allowances on loans and advances US$	Revaluation of financial assets at fair value through other comprehensive income US$	Unrealised gain on investment of funds US$	Depreciation allowances in excess of the related depreciation US$	Total US$
At 1 January 2019	829,178	(73,193)	(412,260)	(95,471)	248,254
Credited/(charged) to income statement (note 6)	(525,561)	-	176,910	(9,449)	(358,100)
Charged to revaluation reserve (note 7(a))	-	(375,283)	-	-	(375,283)
At 31 December 2019	303,617	(448,476)	(235,350)	(104,920)	(485,129)
At 1 January 2018	1,016,811	(537,046)	(356,742)	(95,587)	27,436
Credited/(charged) to income statement (note 6)	(187,633)	-	(55,518)	116	(243,035)
Charged to revaluation reserve (note 7(a))	-	463,853	-	-	463,853
At 31 December 2018	829,178	(73,193)	(412,260)	(95,471)	248,254

16. DEPOSITS FROM CUSTOMERS

All of the deposits from customers are time deposit stated at amortised cost.

17. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 US$	2018 US$
Negative fair values of derivatives (note21(b))	2,596,851	255,584

18. INTEREST PAYABLE AND OTHER LIABILITIES

	2019 US$	2018 US$
Interest payable	7,059,014	5,457,445
Other liabilities	21,110,119	26,498,719
	28,169,133	31,956,164

19. SHARE CAPITAL

	2019 US$	2018 US$
Issued and fully paid:		
240,000,000 (2018: 140,000,000) ordinary shares	240,000,000	140,000,000

A summary of movements in the Company's share capital is as follows:

	Number of shares In issue	Share Capital
At 1 January 2018, 31 December 2018 and 1 January 2019	140,000,000	140,000,000
New issue	100,000,000	100,000,000
At 31 December 2019	240,000,000	240,000,000

On 31 July 2019, 100,000,000 ordinary shares were issued and fully paid at US$1 per share for cash to the existing shareholder of the Company, which resulted in proceeds of US$100,000,000.

20. RESERVES

	Retained profits US$	Financial assets at fair value through other comprehensive income revaluation reserve US$	Total US$
At 1 January 2019	162,608,971	594,086	163,203,057
Financial assets at fair value through other comprehensive income			
- Change in fair value, net of deferred tax	-	1,974,154	1,974,154
- Transfer to income statement on disposal	-	(74,980)	(74,980)
- Transfer of credit loss expenses to income statement	-	(26,976)	(26,976)
Profit for the year	17,720,983	-	17,720,983
Re-measurement gains on defined benefit scheme	3,657	-	3,657
At 31 December 2019	180,333,611	2,466,284	182,799,895
At 1 January 2018	146,718,771	3,036,094	149,754,865
Financial assets at fair value through other comprehensive income			
- Change in fair value, net of deferred tax	-	(2,064,670)	(2,064,670)
- Transfer to income statement on disposal	-	(262,531)	(262,531)
- Transfer of credit loss expenses to income statement	-	(114,807)	(114,807)
Profit for the year	15,875,353	-	15,875,353
Re-measurement gains on defined benefit scheme	14,847	-	14,847
At 31 December 2018	162,608,971	594,086	163,203,057

Nature and purpose of reserves

(i) Revaluation reserve on financial assets at fair value through other comprehensive income revaluation reserve

The revaluation reserve on financial assets at fair value through other comprehensive income revaluation reserve comprises the cumulative net change in the fair value of financial assets at fair value through other comprehensive income revaluation reserve held at the end of the reporting period net of any deferred tax.

(ii) Regulatory reserve

As at 31 December 2019, the Company has earmarked US$10,894,392 (2018: US$6,845,660) as regulatory reserve from retained profits. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained profits and in consultation with the HKMA.

(iii) The directors do not recommend the payment of interim and final dividend in 2018 and 2019.

21. DERIVATIVES

The use of derivatives as risk management products sold to customers is an integral part of the Company's business activities. These instruments are also used to manage the Company's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Company are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. For accounting purposes, derivatives are classified as trading financial instruments.

(a) Notional amount of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts of these instruments indicate the volume of transactions outstanding at the end of the reporting period and they do not represent amounts at risk.

	2019 US$	2018 US$
Exchange rate contracts		
Forwards	325,001,214	87,986,964
Interest rate contracts		
Swaps		
- Qualifying for hedge accounting	412,700,000	324,900,000
- Others	22,200,000	10,000,000
	434,900,000	334,900,000
Debt security contracts		
Futures	-	24,000,000
	759,901,214	446,886,964

The transactions are used to hedge the Company's own exposure to market risks as part of its asset and liability management.

21. DERIVATIVES (continued)

(b) Fair values and credit risk weighted amounts of derivatives

	2019			2018		
	Fair value		Credit risk weighted amount	Fair value		Credit risk weighted amount
	Assets US$	Liabilities US$	US$	Assets US$	Liabilities US$	US$
Exchange rate contracts						
Forwards	-	1,861,033	730,388	442,906	255,584	264,555
Interest rate contracts						
Swaps	278,108	735,818	419,608	3,779,741	-	1,553,013
Debt security contracts						
Futures	-	-	-	-	-	480,000
	278,108	2,596,851	1,149,996	4,222,647	255,584	2,297,568

Credit risk-weighted amount refers to the amount as computed in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance. The amount depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 20% to 100% for exchange rate, interest rate and debt security contracts.

The Company did not enter into any bilateral netting arrangement during the year and accordingly these amounts are shown on a gross basis.

(c) Fair values of derivatives designated as hedging instruments

The following is a summary of the fair values of derivatives held for hedging purposes by product type entered into by the Company:

	2019			2018		
	Change in fair value used for recognising hedge ineffectiveness	Assets	Liabilities	Change in fair values used for recognising hedge ineffectiveness	Assets	Liabilities
Interest rate contracts						
Swaps	2,287,272	156,568	735,818	2,749,392	3,776,750	-

Fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of certain fixed rate assets due to the movements in market interest rates. At 31 December 2019, the net fair value of interest rate swaps was US$579,250 comprising assets of US$156,568 and liabilities of US$735,818. At 31 December 2018, the net value of interest rate swaps was US$3,776,750 comprising of assets only.

21. DERIVATIVES (continued)

(d) Remaining life of derivatives

The following table provides an analysis of the notional amounts of derivatives held for hedging purpose of the Company by remaining maturity grouping based on the remaining period to settlement at the end of the reporting period.

	Interest rate contracts US$	Exchange rate contracts US$	Debt security contracts US$	Total US$
2019				
1 year or less	83,500,000	314,953,030	-	398,453,030
Over 1 year to 5 years	331,400,000	10,048,184	-	341,448,184
Over 5 years	20,000,000	-	-	20,000,000
	434,900,000	325,001,214	-	759,901,214
2018				
1 year or less	81,000,000	87,986,964	24,000,000	192,986,964
Over 1 year to 5 years	248,900,000	-	-	248,900,000
Over 5 years	5,000,000	-	-	5,000,000
	334,900,000	87,986,964	24,000,000	446,886,964

(e) Remaining life of derivatives designated as hedging instruments

The following table provides an analysis of the notional amounts of derivatives held for hedging purpose of the Company by remaining maturity grouping based on the remaining period to settlement at the end of the reporting period.

	2019 US$	2018 US$
Interest rate contracts		
1 year or less	83,500,000	76,000,000
Over 1 year to 5 years	309,200,000	243,900,000
Over 5 years	20,000,000	5,000,000
	412,700,000	324,900,000

21. DERIVATIVES (continued)

(f) Hedge accounting

The amount relating to hedged items are as follows:

	Carrying amounts US$	Accumulated amount of fair value hedge adjustment included in the carrying amounts US$	Change in value used for recognising hedge ineffectiveness US$
2019			
Financial assets at fair value through other comprehensive income			
- Debt instruments	423,095,852	-	2,287,272
2018			
Financial assets at fair value through other comprehensive income			
- Debt instruments	321,792,851	-	2,749,392

22. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingent liabilities and commitments to extend credit

	2019 US$	2018 US$
Trade-related contingencies	3,081,764	1,811,357
Other commitments		
- with an original maturity of under one year	169,183,381	87,732,690
- with an original maturity of more than one year	88,096,857	45,056,506
	260,362,002	134,600,553
Credit risk weighted amounts	78,501,458	40,437,062

Contingent liabilities and commitments are credit-related instruments which include commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the customer default. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows.

The risk weights used range from 0% to 100% for contingent liabilities and commitments.

Credit loss allowances as at 31 December 2019 was US$139,920 (31 December 2018: US$86,508).

(b) Operating lease commitments

Prior to the adoption of HKFRS 16, at 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 US$
Within 1 year	1,185,701
After 1 year but within 5 years	87,431
	1,273,132

Upon adoption of HFKRS 16, the present value of future minimum lease payments, which are no longer disclosed as commitments as shown above, is recognised as lease liabilities (see note 13). The comparative information has not been restated.

22. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

(c) Capital commitments

Commitments to unlisted investments in funds outstanding at the end of the reporting period not provided for in the financial statements were as follows:

	2019 US$	2018 US$
Contracted for	51,966,803	24,647,732
Credit risk weighted amounts	25,983,401	12,323,866

23. FINANCIAL RISK MANAGEMENT

This section presents information about the Company's exposure to and its management and control of risks, in particular, the primary risks associated with its use of financial instruments:

- credit risk: loss resulting from customer or counterparty default and arises on credit exposure in all forms, including settlement risk;
- market risk: exposure to market variables such as interest rates, exchange rates and equity markets;
- liquidity and funding risk: risk that the Company is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments; and
- operational risk: risk arising from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputation loss.

A risk manager is appointed to oversee risk management, set the strategy and policy for each type of principal risk and set the means for ensuring that the strategy and policy are implemented.

The Company has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and limits continually by means of management and information systems. The Company continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. The internal auditors also perform regular audits to ensure compliance with the policies and procedures.

23. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk management

This category includes credit and counterparty risks from loans and advances, issuer risks from the securities business, counterparty risks from trading activities and country risks. The Company identifies and manages this risk through its (a) target market definitions, (b) credit approval process, (c) post-disbursement monitoring and (d) remedial management procedures.

(i) Corporate credit risk

Although the Company caters to some middle market borrowers, the corporate lending is generally concentrated among highly rated customers. In addition to underwriting standards, the principal means of managing credit risk is the credit approval process. The Company has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. For corporate customers, the Company refers to the risk grading system of its parent Company that is applied to each counterparty and evaluated on a regular basis. The Company also has limits for exposures to individual borrowers and groups of borrowers, regardless of whether the exposure is in the form of loans or non-funded exposures. The Company also has a review process that ensures the proper level of review and approval depending on the size of the facility and risk grading of the credit.

The Company undertakes ongoing credit analysis and monitoring at several levels. The policies are designed to promote early detection of counterparty, industry or product exposures that require special monitoring. The Risk Management Committee monitors overall portfolio risk and potential problem loans on a regular basis.

(ii) Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Company's total exposures. The Company's portfolio of financial instruments is diversified along industry and product sectors.

(iii) Maximum exposure

The maximum exposure to credit risk at the end of the reporting period without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each category of financial assets in the statement of financial position after deducting any impairment allowance. A summary of the maximum credit exposures for off-balance sheet items without taking into account the fair value of collateral are as follows:

	2019 US$	2018 US$
Financial guarantees and other credit related contingent liabilities	3,081,764	1,811,357
Loan commitments and other credit related commitments	257,280,238	132,789,196

23. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk management (continued)

(iv) Credit quality of loans and advances

Loans and advances are only made to recognised and creditworthy third parties. At 31 December 2019 and 2018, no loans and advances to banks are impaired. The credit quality of loans and advances can be analysed as follows:

	2019 US$	2018 US$
Gross loans and advances		
- neither past due nor impaired	1,361,621,873	841,036,463
- impaired	12,000,000	16,000,000
	1,373,621,873	857,036,463
Of which:		
Gross loans and advances that are neither past due nor impaired		
- Grade 1: Pass	1,357,664,873	835,100,963
- Grade 2: Special mention	3,957,000	5,935,500
Gross loans and advances that are impaired		
- Grade 3: Substandard	12,000,000	16,000,000
	1,373,621,873	857,036,463

The Company classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA.

23. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk management (continued)

(v) Credit quality of financial assets other than loans and advances

The following table presents an analysis of investment in debt securities, by rating agency designation at the end of the reporting period, based on Standard and Poor's ratings or their equivalent to the respective issues of the securities.

	2019 US$	2018 US$
AA- to AA+	20,679,300	31,704,870
A- to A+	366,177,068	285,133,451
Lower than A-	60,374,474	57,929,920
	447,230,842	374,768,241
Unrated	-	10,011,200
	447,230,842	384,779,441

(vi) Collaterals

The Company obtains collaterals against loans and advances to customers. Loans and advances to banks, debt securities and other eligible bills are generally unsecured.

	2019 US$	2018 US$
Cash deposits	106,706	-

(vii) Offsetting financial assets and financial liabilities

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

	Gross amounts of recognised financial assets US$	Gross amounts of recognised financial liabilities offset in the financial statements US$	Net amounts of financial assets reported in the financial statements US$	Related amounts not set off in the statement of financial position Financial instruments US$	Cash collateral received US$	Net US$
31 December 2019						
Derivative financial instruments (note 9)	278,108	-	278,108	(230,546)	-	47,562
31 December 2018						
Derivative financial Instruments (note 9)	4,222,647	-	4,222,647	(255,584)	-	3,967,063

23. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk management (continued)

(vii) Offsetting financial assets and financial liabilities (continued)

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the financial statements	Net amounts of financial liabilities reported in the financial statements	Related amounts not set off in the statement of financial position		
				Financial instruments	Cash collateral pledged	Net
	US$	US$	US$	US$	US$	US$
31 December 2019						
Derivative financial instruments (note 17)	2,596,851	-	2,596,851	(230,546)	-	2,366,305
31 December 2018						
Derivative financial instruments (note 17)	255,584	-	255,584	(255,584)	-	-

The Company further manages its credit exposure by entering into master netting arrangements with counterparties where it is appropriate and feasible to do so. Master netting arrangements do not generally result in an offset of assets and liabilities as transactions are usually accounted for individually on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs.

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Company and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial asset and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar arrangement will have the option to settle all such amounts on a net basis in the event of default of the other party. The Company and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously; the financial assets and liabilities are therefore not set off in the statement of financial position.

(b) Market risk management

Market risk arises on all market risk sensitive financial instruments, including securities, foreign exchange contracts, equity and derivative instruments, as well as from statement of financial position or structural positions. The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce the Company's exposure to the volatility inherent in financial instruments.

23. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk management (continued)

(i) Currency risk

The Company's foreign currency positions arise from foreign exchange dealing and commercial banking operations. All foreign currency positions are managed by the global markets department within limits approved by the board.

The following table indicates the concentration of currency risk at the end of the reporting period.

	2019						
United States dollars equivalents	Korean Won	Hong Kong dollars	Australian dollars	Euros	Japanese Yen	Renminbi	Total
Spot assets	7,186,857	391,639,413	26,587,392	42,414,154	99,240	4,552,032	472,479,088
Spot liabilities	-	(135,662,413)	(125,269)	(220,278)	(4,601)	(4,256,190)	(140,268,751)
Forward purchases	-	-	-	-	-	-	-
Forward sales	(10,103,841)	(251,683,217)	(24,557,768)	(40,517,447)	-	-	(326,862,273)
Net long/(short) position	(2,916,984)	4,293,783	1,904,355	1,676,429	94,639	295,842	5,348,064

	2018						
United States dollars equivalents	Korean Won	Hong Kong dollars	Australian dollars	Euros	Japanese Yen	Renminbi	Total
Spot assets	44,071	182,300,494	17,361,878	3,927,838	27,324	8,203,332	211,864,937
Spot liabilities	-	(111,896,704)	-	(15,995)	(4,541)	(7,917,359)	(119,834,599)
Forward purchases	-	-	-	-	-	-	-
Forward sales	-	(67,418,709)	(16,603,989)	(3,776,937)	-	-	(87,799,635)
Net long position	44,071	2,985,081	757,889	134,906	22,783	285,973	4,230,703

At 31 December 2019, the Company was mainly exposed to currency risk arisen from Korean Won (“KRW), Australian dollars ("AUD") and Euros ("EUR") (2018: AUD).

Currency risk arisen from investments in funds in KRW. At 31 December 2019, it was estimated that a general change of ten percent appreciation in exchange rate with all other variables remain constant, would have resulted in a decrease of US$291,698 in the Company’s profit before tax.

Currency risk arisen from balance from loans and advances in AUD. At 31 December 2019, it was estimated that a general change of ten percent appreciation in exchange rate with all other variables remain constant, would have resulted in an increase of US$190,436 (2018: US$75,789) in the Company’s profit before tax.

Currency risk arisen from loans and advances in EUR. At 31 December 2019, it was estimated that a general change of ten percent appreciation in exchange rate with all other variables remain constant, would have resulted in an increase of US$167,643 in the Company's profit before tax.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next reporting period. In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

23. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk management (continued)

(ii) Interest rate risk

The Company's interest rate positions arise from treasury and commercial banking activities. Interest rate risk arises in both trading portfolios and non-trading portfolios. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also related to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. The Company uses interest rate swaps and other derivatives to manage interest rate risk.

The following tables indicate the EIR for the relevant periods and the expected next repricing dates (or maturity dates whichever are earlier) for interest bearing non-derivative assets and liabilities at the end of the reporting period. Actual repricing dates may differ from the contractual dates owing to prepayments and the exercise of options. An analysis of the contractual maturity of notional amounts of interest rate swaps is shown in note 21 to the financial statements.

	2019					
	Total US$	3 months or less (include overdue) US$	Over 3 months to 1 year US$	Over 1 year to 5 years US$	Over 5 years US$	Undefined or non-interest bearing US$
Assets						
Cash and short-term funds	121,794,246	19,997,880	-	-	-	101,796,366
Trade bills	392,517,783	233,688,273	158,829,510	-	-	-
Financial assets at fair value through profit or loss	38,655,280	2,999,850	-	-	-	35,655,430
Loans and advances	1,369,057,990	1,285,332,563	79,658,782	-	4,066,645	-
Financial assets at fair value through other comprehensive income	444,279,844	40,628,425	57,228,530	310,122,987	36,251,050	48,852
Interest receivable and other assets	24,877,145	-	-	-	-	24,877,145
	2,391,182,288	1,582,646,991	295,716,822	310,122,987	40,317,695	162,377,793
Liabilities						
Deposits and balances of banks and other financial institutions	1,116,230,769	862,000,000	254,230,769	-	-	-
Deposits from customers	1,046,173	-	1,046,173	-	-	-
Financial liabilities at fair value through profit or loss	2,596,851	-	-	-	-	2,596,851
Certificates of deposit issued	817,480,901	729,507,334	87,973,567	-	-	-
Interest payable and other liabilities	28,169,133	-	-	-	-	28,169,133
	1,965,523,827	1,591,507,334	343,250,509	-	-	30,765,984
Assets-liabilities gap		**(8,860,343)**	**(47,533,687)**	**310,122,987**	**40,317,695**	

23. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk management (continued)

(ii) Interest rate risk (continued)

	2018					
	Total US$	3 months or less (include overdue) US$	Over 3 months to 1 year US$	Over 1 year to 5 years US$	Over 5 years US$	Undefined or non-interest bearing US$
Assets						
Cash and short-term funds	59,542,813	27,986,420	-	-	-	31,556,393
Trade bills	385,492,947	244,495,407	140,997,540	-	-	-
Financial assets at fair value through profit or loss	45,153,515	9,988,900	-	13,109,130	-	22,055,485
Loans and advances	852,340,313	794,704,798	43,311,790	9,945,987	4,377,738	-
Financial assets at fair value through other comprehensive income	361,723,431	37,923,000	75,958,240	227,928,071	19,872,100	42,020
Interest receivable and other assets	42,349,107	-	-	-	-	42,349,107
	1,746,602,126	1,115,098,525	260,267,570	250,983,188	24,249,838	96,003,005
Liabilities						
Deposits and balances of banks and other financial institutions	695,000,000	655,000,000	40,000,000	-	-	-
Deposits from customers	2,077,990	1,041,737	1,036,253	-	-	-
Financial liabilities at fair value through profit or loss	255,584	-	-	-	-	255,584
Certificates of deposit issued	715,168,747	622,942,557	92,226,190	-	-	-
Interest payable and other liabilities	31,956,164	-	-	-	-	31,956,164
	1,444,458,485	1,278,984,294	133,262,443	-	-	32,211,748
Assets-liabilities gap		**(163,885,769)**	**127,005,127**	**250,983,188**	**24,249,838**	

The analysis below sets out the impact on future net interest income of a 50 basis points parallel fall or rise in all-in yield curves at the beginning of the year from 1 January 2019 and 12.5 basis points parallel fall or rise in all-in yield curves at the beginning of each quarter during the 12 month period from 1 January 2019.

Assuming no management actions and all other variables held constant, such a series of incremental parallel rises/falls in all-in yield curves would increase/decrease planned net interest income for the year ended 31 December 2019 by US$2,450,518 (2018: US$1,752,685) for 50 basis points movement at the beginning of the year and increase/decrease by US$1,531,574 (2018: US$1,095,428) for 12.5 basis points movement at the beginning of each quarter respectively. These figures incorporate the impact of any option features in the underlying exposures and takes into account the change in pricing of retail products relative to change in market interest rates.

23. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk management (continued)

(iii) Equity price risk

The Company is exposed to equity price risk from investments in equity securities and funds, which are classified as financial assets at fair value at other comprehensive income and fair value through profit or loss respectively held for long-term strategic purposes.

At 31 December 2019, it is estimated that a general change of one percent in the fair value of the Company's financial assets through fair value at other comprehensive income and fair value through profit or loss, with all other variables held constant, would have resulted in a US$489 and US$353,773 (2018: US$420 and US$178,328) change respectively on the financial assets at fair value through other comprehensive income revaluation reserve and revaluation on funds at income statement.

(c) Liquidity risk management

The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitments and to capitalise on opportunities for business expansion. This includes the Company's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise.

Liquidity is managed on a daily basis by the global markets department under the direction of the Risk Management Committee. The global markets department is responsible for ensuring that the Company has adequate liquidity for all operations; ensuring that the funding mix is appropriate so as to avoid maturity mismatches and to prevent price and reinvestment risk in case of a maturity gap; and monitoring local and international markets for the adequacy of funding and liquidity.

The Company manages liquidity risk by holding sufficient liquid assets (e.g. cash and short-term funds and securities) of appropriate quality to ensure that short-term funding requirements are covered within prudent limits. Adequate facilities can be obtained from its holding company to provide liquidity to meet unexpected and material cash outflows in the ordinary course of business.

23. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk management (continued)

Analysis of assets and liabilities by remaining maturity

The following maturity profile is based on the remaining period at the end of the reporting period to the contractual maturity date. Financial assets at fair value through profit or loss/trading assets and financial liabilities at fair value through profit or loss/trading liabilities are regarded as undated as they are managed on a fair value basis.

	2019							
	Repayable on demand US$	Within 1 month US$	Over 1 month but within 3 months US$	Over 3 months but within 1 year US$	Over 1 year but within 5 years US$	Over 5 years US$	Undated US$	Total US$
Assets								
Cash and short-term funds	101,796,366	19,997,880	-	-	-	-	-	121,794,246
Trade bills	-	101,426,839	132,261,433	158,829,511	-	-	-	392,517,783
Financial assets at fair value through profit or loss	-	-	-	-	-	-	38,655,280	38,655,280
Loans and advances	-	119,553,366	66,751,206	156,260,652	998,203,756	28,289,010	-	1,369,057,990
Financial assets at fair value through other comprehensive income	-	10,002,940	11,510,385	67,251,430	319,215,187	36,251,050	48,852	444,279,844
Interest receivable and other assets	-	5,433,169	3,604,232	1,529,003	-	-	14,310,741	24,877,145
	101,796,366	256,414,194	214,127,256	383,870,596	1,317,418,943	64,540,060	53,014,873	2,391,182,288
Liabilities								
Deposits and balances of banks and other financial institutions	-	187,000,000	215,000,000	424,230,769	290,000,000	-	-	1,116,230,769
Deposits from customers	-	-	-	1,046,173	-	-	-	1,046,173
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	2,596,851	2,596,851
Certificates of deposit issued	-	130,892,154	398,627,144	287,961,603	-	-	-	817,480,901
Lease liabilities	-	256,527	502,566	2,189,500	3,815,963	-	-	6,764,556
Interest payable and other liabilities	-	2,318,730	2,991,090	1,749,194	-	-	21,110,119	28,169,133
	-	320,467,411	617,120,800	717,177,239	293,815,963	-	23,706,970	1,972,288,383
Net assets/(liabilities) gap	**101,796,366**	**(64,053,217)**	**(402,993,544)**	**(333,306,643)**	**1,023,602,980**	**64,540,060**		

23. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk management (continued)

Analysis of assets and liabilities by remaining maturity (continued)

	2018							
	Repayable on demand US$	Within 1 month US$	Over 1 month but within 3 months US$	Over 3 months but within 1 year US$	Over 1 year but within 5 years US$	Over 5 years US$	Undated US$	Total US$
Assets								
Cash and short-term funds	31,556,393	27,986,420	-	-	-	-	-	59,542,813
Trade bills	-	82,756,883	161,738,524	140,997,540	-	-	-	385,492,947
Financial assets at fair value through profit or loss	-	-	-	-	-	-	45,153,515	45,153,515
Loans and advances	-	70,798,350	27,220,096	155,463,348	579,423,004	19,435,515	-	852,340,313
Financial assets at fair value through other comprehensive income	-	10,011,200	8,989,110	75,958,240	244,878,561	21,844,300	42,020	361,723,431
Interest receivable and other assets	-	3,648,445	3,818,933	1,696,113	18,903	-	33,166,713	42,349,107
	31,556,393	195,201,298	201,766,663	374,115,241	824,320,468	41,279,815	78,362,248	1,746,602,126
Liabilities								
Deposits and balances of banks and other financial institutions	-	265,000,000	60,000,000	140,000,000	230,000,000	-	-	695,000,000
Deposits from customers	-	1,041,737	-	1,036,253	-	-	-	2,077,990
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	255,584	255,584
Certificates of deposit issued	-	104,664,928	258,308,008	152,222,782	199,973,029	-	-	715,168,747
Interest payable and other liabilities	-	2,287,719	2,114,425	1,055,302	-	-	26,498,718	31,956,164
	-	372,994,384	320,422,433	294,314,337	429,973,029	-	26,754,302	1,444,458,485
Net assets/(liabilities) gap	**31,556,393**	**(177,793,086)**	**(118,655,770)**	**79,800,904**	**394,347,439**	**41,279,815**		

23. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk management (continued)

Analysis of assets and liabilities by remaining maturity (continued)

The following tables give the undiscounted cash-flow projection of the Company's financial liabilities including interest payable and undrawn commitments at the end of the reporting period based on the dates of their contractual payment obligations. Interest payable in respect of term financial liabilities are reported based on contractual interest payment date. Financial liabilities repayable on demand including interest accrued up to the end of the reporting period are reported under the column "repayable on demand".

	2019					
	Repayable on demand US$	Three months or less but not on demand US$	Three months to one year US$	One year to five years US$	Over five years US$	Total US$
Deposits and balance of banks and other financial institutions	-	407,492,909	433,022,460	295,651,546	-	1,136,166,915
Deposits from customers	-	-	1,050,855	-	-	1,050,855
Certificates of deposit issued	-	531,769,392	291,744,373	-	-	823,513,765
Lease liabilities	-	811,041	2,276,392	3,890,190	-	6,977,623
Derivative financial instruments	-	298,713,203	25,266,337	25,338,378	306,213	349,624,131
	-	1,238,786,545	753,360,417	324,880,114	306,213	2,317,333,289
Commitments:						
Trade-related contingencies	3,081,764	-	-	-	-	3,081,764
Other commitments	309,247,041	-	-	-	-	309,247,041
	312,328,805	-	-	-	-	312,328,805

	2018					
	Repayable on demand US$	Three months or less but not on demand US$	Three months to one year US$	One year to five years US$	Over five years US$	Total US$
Deposits and balance of banks and other financial institutions	-	329,707,261	146,948,727	234,892,078	-	711,548,066
Deposits from customers	-	1,044,502	1,041,434	-	-	2,085,936
Certificates of deposit issued	-	365,700,828	158,256,252	205,683,103	-	729,640,183
Derivative financial instruments	-	69,278,893	22,016,327	7,559,185	48,724	98,903,129
	-	765,731,484	328,262,740	448,134,366	48,724	1,542,177,314
Commitments:						
Trade-related contingencies	1,811,357	-	-	-	-	1,811,357
Other commitments	157,436,928	-	-	-	-	157,436,928
	159,248,285	-	-	-	-	159,248,285

23. FINANCIAL RISK MANAGEMENT (continued)

(d) Operational risk management

Operational risks arise from the Company's daily operation and fiduciary activities. The Company has put in place an internal control process which requires the establishment of policies and procedures for all key business activities. In particular for new products and services development, policies and procedures must be approved before launch. All business units are responsible for identifying, assessing and controlling the risks inherent in their business activities.

The Company's internal audit and compliance department together with the risk manager play an essential role in monitoring the Company's operational risk. The primary focus of internal audit and compliance department is:

- to independently evaluate the adequacy of key internal controls;
- to ensure adherence to the operating guidelines, including regulatory and legal requirements;
- to pro-actively recommend improvements; and
- to report to the Risk Management Committee on a regular basis.

(e) Capital management

The Company's objective for managing capital is to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times.

The HKMA sets the capital requirements which the Company should monitor on an on-going basis.

In addition to meeting the regulatory requirements, the Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The process of allocating capital to specific operations and activities is undertaken by management and is reviewed regularly by the board of directors.

Consistent with industry practice, the Company monitors its capital structure on the basis of the capital adequacy ratio and there have been no material changes in the Company's policy on the management of capital during the year.

The capital adequacy ratios are computed in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Company has complied with the capital requirements at each reporting date during the years ended 31 December 2019 and 2018 and is above the minimum required ratio set by the HKMA at 31 December 2019 and 2018.

24. FAIR VALUES OF FINANCIAL INSTRUMENTS

(a) Estimation of fair values

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, the most suitable measure for fair value is the quoted market price. In the absence of organised secondary markets for most financial instruments, in particular for loans, deposits and unlisted derivatives, direct market prices are not available and the fair values of such instruments were therefore calculated on the basis of well-established valuation techniques using current market parameters. In particulars, the fair value is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of the value realisable in a future sale.

Valuation techniques involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experiences and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets and, in many cases, could not be realised in an immediate sale of the instruments.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments where a quoted price is not readily available.

(i) the fair value of variable rate loans and receivables and certificates of deposit issued are assumed to be approximated by their carrying amounts and does not reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the provisions/impairment allowances from both the carrying amount and fair value;

(ii) the fair value of unquoted debt securities is estimated by using an appropriate credit spread for the issuer of the period to discount future cash flows;

(iii) the fair value of fixed rate loans and certificates of deposit issued carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and provisions/allowances from both the carrying amount and fair value;

(iv) the fair value of unquoted equity investments are estimated by pricing agent based on the future discounted cash flow method;

(v) the fair value of unlisted open-ended investment funds is estimated using the net asset value as reported by the managers of such funds; and

(vi) the fair value of interest rate swaps is estimated either using broker quotes or by discounting future cash flows. Future cash flows are estimated based on management's best estimates of the amount it would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions and the current credit worthiness of the counterparties. The discount rate used is a market rate for a similar instrument at the end of the reporting period. Inputs are based on market related data at the end of the reporting period.

24. FAIR VALUES OF FINANCIAL INSTRUMENTS

(b) Financial instruments carried at fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information.

Fair values of equity and debt securities that are traded in active markets are based on quoted market prices or dealer price quotations.

The Company uses discounted future cash flow models for determining the fair value of interest rate swaps that use only observable market data and require little management judgement and estimation.

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised.

2019	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Assets				
Financial assets at fair value through profit or loss				
- Debt securities	2,999,850	-	-	2,999,850
- Investment in funds	-	-	35,377,322	35,377,322
- Positive fair value of derivatives	-	278,108	-	278,108
	2,999,850	278,108	35,377,322	38,655,280
Financial assets at fair value through other comprehensive income measured at fair value				
- Debt securities	444,230,992	-	-	444,230,992
- Equity securities	-	-	48,852	48,852
	444,230,992	-	48,852	444,279,844
	447,230,842	278,108	35,426,174	482,935,124
Liabilities				
Financial liabilities at fair value through profit or loss				
- Negative fair value of derivatives	-	2,596,851	-	2,596,851

24. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Financial instruments carried at fair value (continued)

2018	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Assets				
Financial assets at fair value through profit or loss				
- Debt securities	23,098,030	-	-	23,098,030
- Investment in funds	-	-	17,832,838	17,832,838
- Positive fair value of derivatives	-	4,222,647	-	4,222,647
	23,098,030	4,222,647	17,832,838	45,153,515
Financial assets at fair value through other comprehensive income measured at fair value				
- Debt securities	341,685,311	19,996,100	-	361,681,411
- Equity securities	-	-	42,020	42,020
	341,685,311	19,996,100	42,020	361,723,431
	364,783,341	24,218,747	17,874,858	406,876,946
Liabilities				
Financial liabilities at fair value through profit or loss				
- Negative fair value of derivatives	-	255,584	-	255,584

During the year there were no transfers of financial instruments amongst Level 1, Level 2 and Level 3 of the fair value hierarchy.

24. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Financial instruments carried at fair value (continued)

(i) Valuation of financial instruments with significant unobservable inputs

The Company's global markets department and principal investment department is responsible for determining the policies and procedures for the fair value measurement of Level 3 financial instruments. At each reporting date, the global market department and principal investment department analyse the movements in the values of Level 3 financial instruments and verify the major inputs applied in the valuation. The valuation is reviewed and approved by the chief executive officer. The valuation process and results are presented to the risk management committee of the Company on a monthly basis.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	2019 US$	2018 US$
At 1 January	17,874,858	13,769,066
Purchases	17,509,914	5,092,865
Net unrealised gains/(losses) recognised in income statement during the year	545,372	(767,551)
Net unrealised gains recognised in other comprehensive income during the year	8,816	5,081
Disposals	(512,786)	(224,603)
At 31 December	35,426,174	17,874,858

24. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Financial instruments carried at fair value (continued)

(ii) Effect of changes in significant unobservable inputs to reasonably possible alternatives

The fair value of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. For unquoted equity investments, the impact due to changes in fair value is insignificant to the Company. For unlisted open-ended investment funds, the significant unobservable input is the net asset value as reported by the managers of such funds. The following table shows the sensitivity of fair values due to parallel movement of plus or minus 10% of the net asset values as reported by the managers of such funds.

	Effect on income statement	
	Favourable	Unfavourable
	US$	US$
2019		
Assets		
Financial assets at fair value through profit or loss		
- Unlisted investments in funds	3,537,732	(3,537,732)
2018		
Assets		
Financial assets at fair value through profit or loss		
- Unlisted investments in funds	1,783,284	(1,783,284)

25. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Company entered into the following material related party transactions.

Transactions with group companies

During the year, the Company entered into transactions with group companies in the ordinary course of its banking business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions and off-balance sheet transactions. The transactions were priced at the relevant market rates at the time of each transaction. The Company has internal policies to control connected lending.

Transactions and outstanding balances with related parties during and at the end of the reporting period are set out below:

Income statement

	Holding company	
	2019 US$	2018 US$
Interest income	10,251,620	5,618,773
Interest expense	(12,009,242)	(8,225,942)

Statement of financial position

	Holding company	
	2019 US$	2018 US$
Cash and short-term funds	1,840	1,913
Trade bills	341,398,902	360,687,148
Financial assets at fair value through profit or loss	121,539	442,906
Interest receivable and other assets	1,602,163	2,305,544
Deposits and balances of banks and other financial institutions	(784,000,000)	(490,000,000)
Financial liabilities at fair value through profit or loss	(647,748)	(123,645)
Interest payable and other liabilities	(6,086,890)	(10,158,082)

No credit loss allowance was made in respect of the above financial assets due from related parties as at 31 December 2019 and 2018.

26. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES

(a) Capital adequacy ratios

	2019	2018
- Common Equity Tier 1 ("CET1") capital ratio	21.12%	22.88%
- Tier 1 capital ratio	21.12%	22.88%
- Total capital ratio	21.77%	23.45%

Capital adequacy ratios were compiled with in accordance with the Banking (Capital) Rules issued by the HKMA. The capital disclosures at 31 December 2019 are compiled in accordance with the Banking (Capital) (Amendment) Rules 2012 for the implementation of the Basel III capital framework.

In accordance with the Banking (Capital) Rules, the Company has adopted the "basic approach" for the calculation of the risk-weighted assets for credit risk, the standardised (market risk) approach to calculate its market risk, and the "basic indicator approach" for the calculation of operational risk. The Company has adopted the "standardised method" for the calculation of CVA capital charge.

To comply with the Banking (Disclosure) Rules, all additional information in relation to the Company's regulatory capital disclosures will be published by using the standard disclosure templates as specified by the HKMA under the "Regulatory Disclosures" section on the website:

https://www.kdb.co.kr/CHGMHK99N27.act?GmBrnId=AL&_mnuId=IHIHGM2065&GmMlngTc=en

26. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)

(b) Regulatory capital disclosures

	2019 US$	2018 US$
CET1 capital instruments	240,000,000	140,000,000
Retained earnings	180,333,611	162,608,971
Disclosed reserves	2,466,284	594,086
CET1 CAPITAL BEFORE DEDUCTIONS	422,799,895	303,203,057
Deduct:		
Deferred tax assets in excess of deferred tax liabilities	-	(321,447)
Regulatory reserve for general banking risks	(10,894,392)	(6,845,660)
CET1 CAPITAL	411,905,503	296,035,950
ADDITIONAL TIER 1 CAPITAL AFTER DEDUCTIONS	-	-
TIER 1 CAPITAL	411,905,503	296,035,950
Regulatory reserve for general banking risks	10,894,392	6,845,660
Collective impairment allowance	1,643,403	673,650
TIER 2 CAPITAL	12,537,795	7,519,310
TOTAL CAPITAL BASE	424,443,298	303,555,260

(c) Liquidity maintenance ratio

	2019	2018
Average liquidity maintenance ratio for the year	112.85%	124.74%

The Company calculates the average liquidity maintenance ratio of each calendar month by reference to positions of specified days approved by the HKMA pursuant to Rule 48(2) of the Banking (Liquidity) Rules.

The average liquidity maintenance ratio is computed on a solo basis using the arithmetic mean of each calendar month's average liquidity maintenance ratio as reported in the return relating to liquidity position submitted to the HKMA.

To comply with the Banking (Disclosure) Rules, liquidity information disclosure will be published under the "Regulatory Disclosures" section on the website:

https://www.kdb.co.kr/CHGMHK99N27.act?GmBrnId=AL&_mnuId=IHIHGM2065&GmMlngTc=en

26. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)

(d) Leverage ratio

	2019 US$	2018 US$
On-balance sheet exposures	2,393,618,819	1,741,586,202
Less: Regulatory adjustments	-	(321,447)
Total on-balance sheet exposures	2,393,618,819	1,741,264,755
Replacement cost associated with all derivatives transactions	502,334	5,065,933
Add-on amounts for potential future exposure associated with all derivative transactions	14,710,778	6,188,217
Total derivative exposures	15,213,112	11,254,150
Exposures with a 20% credit conversion factor	34,453,029	17,908,809
Exposures with a 50% credit conversion factor	70,031,830	34,852,119
Total off-balance sheet exposures	104,484,859	52,760,928
Securities financing transaction exposures	-	-
Total exposures before adjustments for specific and collective provisions	2,513,316,790	1,805,279,833
Less: Adjustments for specific and collective provisions	(139,921)	(86,519)
Total exposures after adjustments for specific and collective provisions	2,513,176,869	1,805,193,314
Tier 1 capital	411,905,503	296,035,950
Leverage ratio	16.39%	16.47%

Leverage ratio ("LR") is calculated in accordance with the completion instruction issued by the HKMA.

To comply with the Banking (Disclosure) Rules, all additional information in relation to the Company's leverage ratio disclosure will be published by using the standard disclosure templates as specified by the HKMA under the "Regulatory Disclosures" section on the website:

https://www.kdb.co.kr/CHGMHK99N27.act?GmBrnId=AL&_mnuId=IHIHGM2065&GmMlngTc=en

26. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)

(e) Countercyclical Capital Buffer (CCyB) Ratio

Countercyclical capital buffer ratio ("CCyB") were complied with in accordance with the Banking (Capital) Rules. The Company's specific CCyB rate is calculated as the weighted average of the applicable jurisdictional CCyB rates, in respect of the jurisdictions (including Hong Kong) where the Company has private sector credit exposures. The weight to be attributed to a given jurisdiction's applicable CCyB rate is the ratio of the Company's aggregate risk-weighted amounts for its private sector credit exposures (in both the banking book and the trading book) in that jurisdiction (where the location of the exposures is determined as far as possible on an ultimate risk basis) to the sum of the Company's aggregate risk-weighted amounts across all jurisdictions in which the Company has private sector credit exposure. For a credit exposure guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor.

Geographical breakdown of risk-weighted amounts (RWA) in relation to private sector credit exposures, are shown as follows:

At 31 December 2019

Jurisdiction	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio US$	CCyB ratio	CCyB amount US$
Hong Kong SAR	2.000%	583,911,194		
China	-	555,901,589		
Angola	-	1,250,186		
Australia	-	26,135,444		
Canada	-	4,583,758		
Cayman Islands	-	40,575,849		
India	-	17,953,580		
Ireland	-	28,602,140		
Kuwait	-	8,405,380		
Luxembourg	-	13,742,340		
Macau SAR	-	8,975,349		
Malaysia	-	425,683		
Philippines	-	9,818,101		
Residual Latin America and Caribbean		12,434,033		
Saudi Arabia	-	20,461,392		
Singapore	-	33,403,955		
South Korea	-	212,509,818		
United Arab Emirates	-	9,307,616		
United Kingdom	1.000%	376,002		
Total		**1,588,773,409**	**0.735%**	**11,677,485**

26. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)

(e) Countercyclical Capital Buffer Ratio (continued)

At 31 December 2018

Jurisdiction	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio US$	CCyB ratio	CCyB amount US$
Hong Kong SAR	1.875%	386,309,709		
China	-	301,340,978		
Angola	-	2,083,692		
Australia	-	25,792,753		
Canada	-	3,057,783		
Cayman Islands	-	24,251,145		
India	-	17,725,580		
Ireland	-	9,973,262		
Kuwait	-	9,261,047		
Luxembourg	-	4,379,378		
Malaysia	-	568,218		
Philippines	-	14,255,551		
Singapore	-	23,561,653		
South Korea	-	164,453,630		
United Arab Emirates	-	9,425,695		
United Kingdom	1.000%	1,049,730		
United States	-	9,053,485		
Total		**1,006,543,289**	**0.721%**	**7,257,177**

To comply with the Banking (Disclosure) Rules, all additional information in relation to the Company's countercyclical capital buffer ratio disclosure will be published by using the standard disclosure templates as specified by the HKMA under the "Regulatory Disclosures" section on the website:

https://www.kdb.co.kr/CHGMHK99N27.act?GmBrnId=AL&_mnuId=IHIHGM2065&GmMlngTc=en

26. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)

(f) NON-BANK MAINLAND CHINA EXPOSURES

The analysis of non-bank Mainland China exposures is based on the categories of non-bank counterparties and the type of direct exposures with reference to the Completion Instruction for the HKMA return of non-bank Mainland exposures.

	Items in HKMA return	On-balance sheet exposure US$	Off-balance sheet exposure US$	Total exposure US$
2019				
Central government, central government-owned entities and their subsidiaries and joint ventures	1	265,756,989	12,596,619	278,353,608
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	138,243,039	9,500,000	147,743,039
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	3	362,520,637	92,979,155	455,499,792
Other entities of central government not reported in item 1 above	4	-	-	-
Other entities of local governments not reported in item 2 above	5	52,559,365	11,350,073	63,909,438
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	6	63,677,969	2,000,000	65,677,969
Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	7	51,668,640	5,258,459	56,927,099
Total	8	934,426,639	133,684,306	1,068,110,945
Total assets after provisions	9	2,404,869,124		
On-balance sheet exposures as percentage of total assets	10	38.66%		
2018				
Central government, central government-owned entities and their subsidiaries and joint ventures	1	230,033,649	10,096,619	240,130,268
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	57,980,555	2,500,000	60,480,555
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	3	191,795,381	37,445,856	229,241,237
Other entities of central government not reported in item 1 above	4	-	-	-
Other entities of local governments not reported in item 2 above	5	34,490,657	10,051,282	44,541,939
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	6	31,705,534	-	31,705,534
Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	7	6,071,495	778,010	6,849,505
Total	8	552,077,271	60,871,767	612,949,038
Total assets after provisions	9	1,753,538,037		
On-balance sheet exposures as percentage of total assets	10	31.48%		

No specific provision was made in respect of the above exposures.

26. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)

(g) Segmental information

(i) By class of business

All the principal operations of the Company are primarily located in Hong Kong.

The Company's activities comprise two classes of business. Commercial banking activities include the acceptance of deposits, the advance of loans, the investment holding, the supply of foreign exchange and trade financing to commercial, industrial and institutional customers and international banking. Securities business activities include underwriting/trading of securities.

Operating income before operating expenses and provisions:

	2019 US$	2018 US$
Commercial banking	23,364,305	20,432,040
Securities business	7,631,226	7,151,659
	30,995,531	27,583,699

Operating assets:

	2019 US$	2018 US$
Commercial banking	1,899,517,615	1,306,603,891
Securities business	499,352,219	441,185,666
	2,398,869,834	1,747,789,557

(ii) Fee and commission income - by product line:

	2019 US$	2018 US$
Agency fees	608,000	635,000
Underwriting fees	765,468	2,569,347
Fee income on letters of credit	644,198	380,547
Trade finance	80,325	98,723
Others	2,708,099	3,683,936
	4,806,090	7,367,553

26. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)

(h) Overdue and rescheduled assets

(i) Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year-end. As at 31 December 2019 and 2018, there were no lans and advances to customers which have been overdue for more than 3 months.

(ii) Rescheduled loans and advances

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Company.

	2019 US$	2018 US$
Rescheduled loans and advances to customers	3,957,000	5,935,500
Gross scheduled loans and advances as a percentage of total gross loans and advances	0.29%	0.69%

(iii) There were no other assets which have been overdue for more than 3 months at 31 December 2019 and 2018.

(iv) There are no repossessed assets held in both 2019 and 2018.

(i) Key elements of disclosure policy

The Disclosure Policy of the Company sets out the approach used by the Company to (i) determine the content, appropriateness and frequency of the information it discloses to the general public relating to its state of affairs including its profit and loss and its financial resources (including capital/liquidity resources) and (ii) descriptions of its own risk profile as required by the Banking (Disclosure) Rules.

To comply with the Banking (Disclosure) Rules, all information in relation to the Company's key elements of disclosure policy will be published under the "Regulatory Disclosures" section on the website:

https://www.kdb.co.kr/CHGMHK99N30.act?GmBrnId=AL&_mnuId=IHIHGM2066&GmMlngTc=en

27. EVENTS AFTER THE REPORTING PERIOD

In preparing these financial statements, management has evaluated and disclosed all material subsequent events up to 24 April 2020, which is the date that the financial statements were authorised for issue. Subsequent to the end of the financial year, the COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020. As the outbreak of COVID-19 occurred after 31 December 2019, its impact is considered an event that is indicative of conditions that arose after the reporting period, and accordingly no adjustments have been made to the financial statements as at 31 December 2019 for the impacts of COVID-19.

The outbreak of COVID-19 in early 2020 and the response of Governments in dealing with the pandemic has had significant impact on global financial markets and economic activity. The Company has been closely monitoring the impact of its developments on the Company's business and has put in place contingency measures. The ECL as at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. The subsequent impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under HKFRS 9 in 2020.

Other than those disclosed above, no subsequent events have occurred that would require adjustment or disclosure and have a material effect on the financial statements as at 31 December 2019.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 April 2020.

1. LOANS AND ADVANCES - BY GEOGRAPHICAL AREAS

	Gross loans and advances US$	Impaired loans (individually determined) US$	Specific provisions US$	General provisions US$
2019				
Hong Kong	480,041,130	-	-	(539,205)
China	442,010,874	-	-	(437,812)
Korea	228,544,420	12,000,000	(3,072,000)	(419,356)
Others	223,025,449	-	-	(95,510)
	1,373,621,873	12,000,000	(3,072,000)	(1,491,883)
2018				
Hong Kong	293,268,585	-	-	(242,291)
China	172,118,801	-	-	(116,201)
Korea	219,787,095	16,000,000	(4,128,000)	(133,662)
Others	171,861,982	-	-	(75,996)
	857,036,463	16,000,000	(4,128,000)	(568,150)

The above geographical analysis is classified by the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated.

2. FURTHER ANALYSIS ON LOANS AND ADVANCES ANALYSED BY INDUSTRY SECTOR

Loans and advances analysed by the coverage of collateral, overdue amount and the provisions is as follows. The economic sector analysis is based on the categories and definitions used by the HKMA.

	Gross loans and advances US$	Percentage of collateral securing loans and advances	Specific provisions US$	General provisions US$	(Reversal of credit loss allowances)/ credit loss expenses charged to income statement during the year US$
2019					
Industrial, commercial and financial					
- Property development	40,701,467	-	-	24,030	13,078
- Property investment	9,570,920	-	-	4,683	(5,682)
- Financial concerns	93,515,044	-	-	23,927	7,103
- Stock brokers	32,239,671	-	-	9,517	3,695
- Wholesale and retail trade	77,853,312	-	-	214,748	117,613
- Manufacturing	150,920,360	-	-	184,985	106,265
- Recreational activities	6,000,000	-	-	2,556	42
- Others	117,355,101	-	-	117,230	76,976
Loans and advances for use in Hong Kong	528,155,875	-	-	581,676	319,090
Trade finance	3,664,016	2.91%	-	2,070	(2,160)
Loans and advances for use outside Hong Kong	841,801,982	-	3,072,000	908,137	(449,197)
	1,373,621,873	0.01%	3,072,000	1,491,883	
Reversal of credit loss allowances from income statement during the year (note 5)					(132,267)
2018					
Industrial, commercial and financial					
- Property development	9,583,222	-	-	10,952	10,952
- Property investment	19,153,928	-	-	10,365	10,365
- Financial concerns	63,698,792	-	-	16,824	(34,613)
- Stock brokers	24,358,974	-	-	5,822	(14,191)
- Wholesale and retail trade	77,345,742	-	-	97,135	(73,166)
- Manufacturing	126,600,315	-	-	78,720	36,321
- Transport and transport equipment	-	-	-	-	(53,087)
- Recreational activities	6,000,000	-	-	2,514	2,514
- Information Technology	-	-	-	-	(16,989)
- Others	38,086,306	-	-	40,254	(17,771)
Loans and advances for use in Hong Kong	364,827,279	-	-	262,586	(149,665)
Trade finance	8,362,060	-	-	4,230	(23,813)
Loans and advances for use outside Hong Kong	483,847,124	-	4,128,000	301,334	(1,292,864)
	857,036,463	-	4,128,000	568,150	(1,466,342)
Impact of adopting HKFRS 9					614,066
Reversal of credit loss allowances from income statement during the year (note 5)					(852,276)

3. CURRENCY RISK

The following table indicates the concentration of currency risk at the end of the reporting period defined by the Banking (Disclosure) Rules.

Expressed in millions of Hong Kong dollars	United States Dollars	Japanese Yen	Euros	Renminbi	Australian Dollars	Others	Total
2019							
Spot assets	15,126	1	331	35	208	56	15,757
Spot liabilities	(17,703)	-	(2)	(33)	(1)	-	(17,739)
Forward purchase	5,927	-	-	-	-	-	5,927
Forward sales	(3,392)	-	(316)	-	(192)	(79)	(3,979)
Net long/(short) position	(42)	1	13	2	15	(23)	(34)
2018							
Spot assets	12,196	-	31	64	135	-	12,426
Spot liabilities	(12,915)	-	-	(62)	-	-	(12,977)
Forward purchase	3,298	-	-	-	-	-	3,298
Forward sales	(2,612)	-	(29)	-	(129)	-	(2,770)
Net long/(short) position	(33)	-	2	2	6	-	(23)

4. INTERNATIONAL CLAIMS (BY ULTIMATE NATION)

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 by types of counterparties. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, are shown as follows:

			Non-bank private sector		
	Banks	Official Sector	Non-bank financial institutions	Non-bank private sector	Total
At 31 December 2019	US$	US$	US$	US$	US$
Developed countries	**149,041,579**	**-**	**50,224,429**	**16,500,817**	**215,766,825**
- of which Australia	15,063,512	-	14,151,947	11,679,860	40,895,319
- of which Belgium	23,329	-	-	-	23,329
- of which Canada	-	-	3,193,974	-	3,193,974
- of which France	11,222,042	-	-	-	11,222,042
- of which Germany	785,291	-	-	-	785,291
- of which Ireland	-	-	28,602,140	-	28,602,140
- of which Japan	10,371,307	-	-	-	10,371,307
- of which Luxembourg	17,120	-	4,155,988	4,820,957	8,994,065
- of which United Kingdom	16,371,006	-	120,380	-	16,491,386
- of which United States	95,187,972	-	-	-	95,187,972
Offshore centres	**28,310,781**	**-**	**230,000,465**	**170,368,134**	**428,679,380**
- of which Cayman Islands	-	-	20,891,329	-	20,891,329
- of which Hong Kong	960,361	-	183,230,248	162,843,067	347,033,676
- of which Panama	18,285,453	-	-	-	18,285,453
- of which Singapore	9,064,967	-	25,878,888	7,525,067	42,468,922
Developing Latin America and Caribbean	**-**	**-**	**-**	**12,434,033**	**12,434,033**
- of which Residual Developing Latin America and Caribbean	-	-	-	12,434,033	12,434,033
Developing Africa and Middle East	**120,648,214**	**7,664,224**	**9,655,566**	**29,769,008**	**167,737,012**
- of which Angola	-	-	1,250,186	-	1,250,186
- of which Kuwait	-	-	8,405,380	-	8,405,380
- of which Qatar	75,292,457	-	-	-	75,292,457
- of which Saudi Arabia	-	-	-	20,461,392	20,461,392
- of which United Arab Emirates	45,355,757	7,664,224	-	9,307,616	62,327,597
Developing Asia and Pacific	**605,269,827**	**-**	**87,586,322**	**605,863,389**	**1,298,719,538**
- of which China	70,480,800	-	56,108,004	404,594,766	531,183,570
- of which India	23,185,941	-	-	17,953,580	41,139,521
- of which South Korea	480,977,427	-	31,478,318	173,071,259	685,527,004
- of which Malaysia	10,624,687	-	-	425,683	11,050,370
- of which Philippines	-	-	-	9,818,101	9,818,101
- of which Taiwan	20,000,972	-	-	-	20,000,972

4. INTERNATIONAL CLAIMS (BY ULTIMATE NATION) (continued)

			Non-bank private sector		
	Banks	Official Sector	Non-bank financial institutions	Non-bank private sector	Total
At 31 December 2018	US$	US$	US$	US$	US$
Developed countries	**70,104,039**	**-**	**37,190,355**	**12,397,592**	**119,691,986**
- of which Australia	4,204,498	-	13,089,054	12,397,592	29,691,144
- of which Belgium	23,464	-	-	-	23,464
- of which Canada	-	-	995,307	-	995,307
- of which France	6,030,692	-	-	-	6,030,692
- of which Germany	973,277	-	-	-	973,277
- of which Ireland	-	-	9,973,262	-	9,973,262
- of which Japan	27,324	-	-	-	27,324
- of which Luxembourg	13,933	-	3,201,016	-	3,214,949
- of which Spain	20,133,683	-	-	-	20,133,683
- of which United Kingdom	17,776,397	-	878,231	-	18,654,628
- of which United States	20,920,771	-	9,053,485	-	29,974,256
Offshore centres	**46,942,653**	**-**	**189,206,435**	**118,408,747**	**354,557,835**
- of which Cayman Islands	-	-	13,636,515	-	13,636,515
- of which Hong Kong	1,193,263	-	160,686,785	109,730,229	271,610,277
- of which Panama	20,764,897	-	-	-	20,764,897
- of which Singapore	24,984,493	-	14,883,135	8,678,518	48,546,146
Developing Africa and Middle East	**52,604,909**	**8,019,556**	**11,344,739**	**9,425,695**	**81,394,899**
- of which Angola	-	-	2,083,692	-	2,083,692
- of which Kuwait	-	-	9,261,047	-	9,261,047
- of which Qatar	35,020,285	-	-	-	35,020,285
- of which South Africa	2,512,232	-	-	-	2,512,232
- of which United Arab Emirates	15,072,392	8,019,556	-	9,425,695	32,517,643
Developing Asia and Pacific	**610,514,824**	**5,038,979**	**77,019,661**	**354,681,043**	**1,047,254,507**
- of which China	59,488,951	-	63,095,317	174,387,668	296,971,936
- of which India	6,805,723	5,038,979	-	17,725,580	29,570,282
- of which South Korea	501,169,117	-	13,924,344	147,744,026	662,837,487
- of which Malaysia	-	-	-	568,218	568,218
- of which Philippines	15,041,077	-	-	14,255,551	29,296,628
- of which Taiwan	28,009,956	-	-	-	28,009,956

5. CAPITAL DISCLOSURE

(i) Capital requirements

The capital requirements on each class of exposures calculated under the basic approach at the end of the reporting period can be analysed as follow:

	2019 US$	2018 US$
Classes of exposure:		
- Sovereign	613,138	1,044,683
- Bank	18,609,232	14,477,200
- Other exposure	122,176,255	78,095,148
Total capital requirements for on-balance sheet exposures	141,398,625	93,617,031
Trade-related contingencies	49,308	28,982
Other commitments	8,309,480	4,191,893
Exchange rate contracts	58,431	21,164
Interest rate contracts	16,319	119,721
Debt security contracts	-	38,400
Total capital requirements for off-balance sheet exposures	8,433,538	4,400,160
	149,832,163	98,017,191

The capital requirements above are calculated on the basis of 8% of risk weighted assets and do not reflect the amount of capital held.

	2019 US$	2018 US$
(ii) Capital charge for central counterparties	17,251	4,523

	2019 US$	2018 US$
(iii) Capital charge for credit valuation adjustment		
Derivative financial instruments exposures	584,359	228,338

5. CAPITAL DISCLOSURE (continued)

(iv) Capital charge for operational risk

The capital charge for operational risk calculated at the end of the reporting period is:

	2019 US$	2018 US$
Capital charge for operational risk	4,169,744	4,281,282

(v) Capital charge for market risk

	2019 US$	2018 US$
Interest rate exposures	1,075,641	1,310,775
Foreign exchange exposures	317,692	99,615
	1,393,333	1,410,390

6. CORPORATE GOVERNANCE

(i) The Board

As at 31 December 2019, the Board comprised three executive directors and four non-executive directors. The Board's principal roles include approving and monitoring the Company's strategies, business plan and budget, monitoring compliance with the statutory limits and guidelines, and ensuring the Company's business is conducted with a high degree of integrity. The Board meets at least quarterly.

The Company is in compliance with the guideline in the Supervisory Policy Manual module CG-1 on "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the HKMA.

(ii) Committees

The Company's credit review committee and risk management committee are responsible for monitoring its credit risk and market risk respectively. The executive directors are also members of the credit review committee and risk management committee.

The credit review committee is chaired by the managing director and comprises the senior managers in the various business lines. Its responsibilities include formulating and reviewing credit risk policies and procedures, preparing credit proposals for the ultimate holding company's approval, and managing credit risk.

(iii) Internal audit

The Company's audit committee reviews the Company's internal controls system on a regular basis. The Board is responsible for following up the audit committee's findings and monitoring the progress of the implementation of their recommendations.

7. REMUNERATION POLICY

The remuneration policy and systems of the Company is strictly governed by the Remuneration policy and guidelines of our parent company; Korea Development Bank; for its employees engaged in the business and operations in Hong Kong.

With the board of directors undertaking the function of the remuneration committee and is the only authority delegated in accordance with the directives from parent company to be actively involved in overseeing, monitoring and reviewing the design and operation of remuneration system, to ensure the system operates as intended, adjustment for all types of risk, the criteria used for performance measurements, the linkage between pay and performance, deferral policy and vesting criteria and the mix of cash and other forms of remuneration.

Besides the mandate from the parent company, in order to deter excessive risk-taking, when determine the remuneration policy and systems, the Board will also consider the business objectives and strategies, human resources management, business performance, economic environment, leading market practices and the regulatory requirements.

Whilst disclosing the information relating to the remuneration systems, the aggregate quantitative information for senior management and key personnel including deferred remuneration, sign-on and severance payments awarded during 2019 is shown as follow in accordance with the disclosure requirement of CG-5 "Guideline on a Sound Remuneration System" issued by the HKMA.

	2019	2018
Number of beneficiaries:	5	6
Fixed Remuneration:	US$562,998	US$535,359
Variable Remuneration:	US$123,859	US$106,141
Deferred Remuneration Awarded:	NIL	NIL
Sign-on Payment:	NIL	NIL
Severance Payment:	NIL	NIL

8. PILLAR 3 DISCLOSURES

To comply with the Banking (Disclosure) Rules, all information in relation to the Company's Pillar 3 disclosures will be published by using the standard disclosure templates as specified by the HKMA under the "Regulatory Disclosures" section on the website:

https://www.kdb.co.kr/CHGMHK99N27.act?GmBrnId=AL&_mnuId=IHIHGM2065&GmMlngTc=en